SZÁZADVÉG GAZDASÁGKUTATÓ

MONTHLY MONITOR

June 2020

2.2 percent growth in the first quarter

The Hungarian economy could feel the effect of the coronavirus pandemic already in Q1 2020; the greater impact came, however, only in the end of the quarter. As a result, the Hungarian Central Statistical Office could measure a 2.2% year-on-year growth; the quarter-on-previous-quarter figure showed, however, a 0.4% drop in economic output.

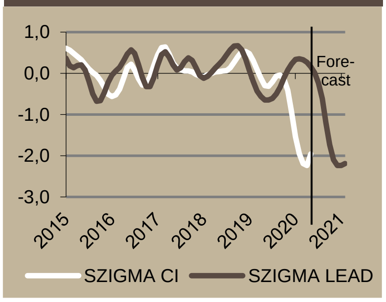
On the production side, the added value generated by agriculture was 0.6% lower than one year before; that of the industry was, however, 1.7% higher, that of the construction industry was 3.0% higher, and that of services was 2.4% higher. These four sectors contributed to the growth of the economy with 0.0 percentage points, 0.4 percentage points, 0.1 percentage points, and 1.2 percentage points, respectively.

On the consumption side, the economy was still driven by household consumption, with a volume 5.0% higher than one year before, contributing with 2.4 percentage points to the growth of the economy. Investments dropped by 2.6%, which slowed growth by 0.6 percentage points. Exports fell by 0.5%, but imports increased by 1.3%—as a result, the foreign trade balance slowed growth by 1.6 percentage points.

In April, the coronavirus made itself strongly felt in the Hungarian economy. Industrial output fell by 36.8%, primarily because of the disruption of supply chains. In April, the coronavirus did not make itself that strongly felt in the construction industry, the output of which was 2.1% less than one year before. The lockdowns and the partial closing of retail outlets caused a 10.2% drop in retail sales.

We expect that the economic output would fell by 3.1% in 2020 (relative to 2019), and 2021 could see a 5.1% bounce-back. In the meantime, the inflation rate could be 3.2% in 2020 and 3.7% in 2021.

SZIGMA indicators

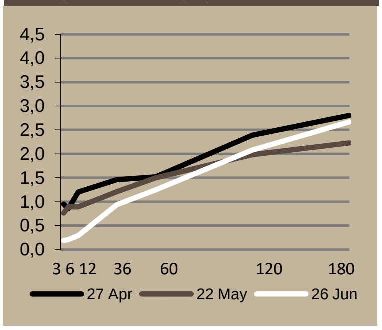


Source: Századvég

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

The ECB expanded its unconventional monetary policy tools.

The European Central Bank did not change its interest rate conditions at its meeting in June; the reference interest rate did, therefore, remain 0% in the eurozone. Neither did the central bank announce any new tools to manage the economic situation caused by the coronavirus; the total amount of the new, €750 billion Pandemic Emergency Purchase Programme (PEPP) launched in March was, however, increased by another €600 billion. The ECB is also continuing to purchase assets in its €20 billion per month Asset Purchase Programme (APP), which it will increase by €120 billion by the end of this year. Introducing new nonconventional monetary policy tools at this rate is necessary primarily because the ECB's June forecast showed that the eurozone inflation rate could slow down to 0.3% in 2020 and could increase only to 1.3% in the next two years, despite the target of 2%. The ECB expects that the economic output of the eurozone would shrink by 8.7% in 2020, which could be followed by a 5.2% growth rate in 2021 and a 3.3% growth rate in 2022. The unemployment rate is expected to increase to 9.8% in 2020 (and peak at 10.8% in Q3); it could, however, further increase to 10.1% in 2021 with the end of the job-protecting government programmes. Additionally, because of the crisis and the announced fiscal easing, the budget deficit could also significantly increase. It is expected to reach 8.5% of the GDP in 2020 and could then drop to 4.9% in 2021. This could end the years-long reduction of the sovereign debt-to-GDP ratio, as it is expected to increase by 17.2 percentage points, to 101.3%, in 2020 and then reduce only by a few tenths of a percentage point per year in the subsequent years.

After the number of jobs decreased by 20.7 million in April, May was a great surprise, as 2.5 million new non-agricultural jobs were created in the USA (although analysts expected that the number of jobs would continue to fall). As a result, the unemployment rate dropped from the historic high 14.7% to 13.3%, which still means approximately 21.0 million unemployed people, 15.2 more than last February, before the outbreak of the pandemic. We must also stress that a considerable portion of newly laid off people in the USA also left the labour market, so they do not appear in the unemployment figures. In May, most new jobs were created in the hospitality, construction, healthcare, education, and retail sectors. The growth rate of average hourly wages accelerated from 3.0% in February to 3.4% in March, then to 8.0% in April, but slowed down to 6.7% in May. This was primarily caused by the fact that companies first laid off employees with low productivity and incomes. This increased the value of the average wage. Then, in May they rehired these employees, which then reduced the average wage relative to the previous month.

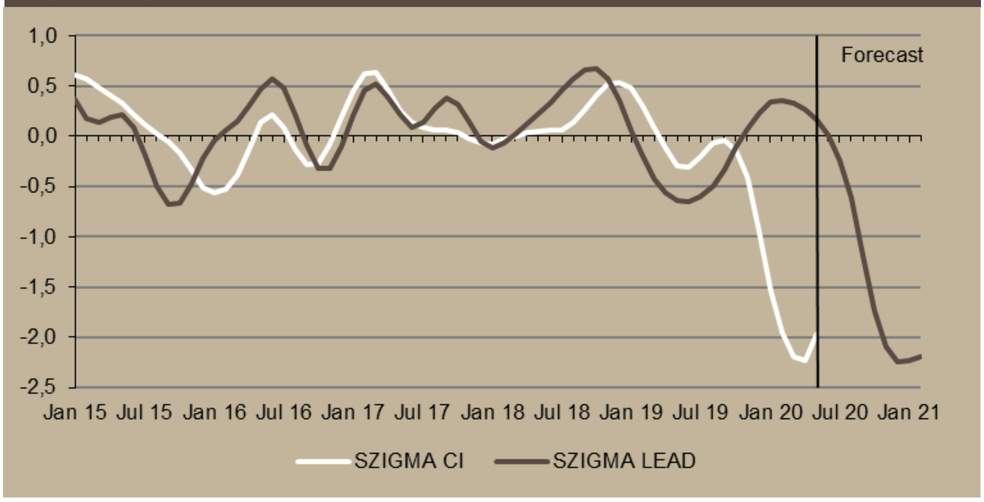
SZIGMA indicators

The virus caused the Hungarian economy to perform way below the trend.

The SZIGMA CI indicator, which shows a picture of the current status of the Hungarian economy, improved slightly on a month-over-previous-month basis in May 2020; it was, however, still negative. This means that the Hungarian economy kept performing below the trend, thanks to the economic shutdown caused by the coronavirus pandemic. In April 2020, relative to the same period of the previous year, the domestic sales volume of the industry shrank by 18.6%, its export sales volume shrank by 43.8%. The volume of new orders also shrank substantially. The volume index of domestic sales orders was 34.4%, that of export sales orders was 43.3% below the indices measured one year before. Although the economy gradually restarted, the industry will not be able to overcome the sharp fall described above in Q2 only; this sector will, therefore, slow down economic growth. The end-of-month volume of contracts in the construction industry continued to shrink in April, too, it was 15.4% smaller than one year before. The number of new non-residential building projects was, however, only 2.5% lower than in April 2019.

The SZIGMA LEAD indicator, which expresses our short-term performance expectations for the Hungarian economy, shows that economic output would grow at a rate above the trend, although close to it, until June 2020; until the end of the forecast period, February 2021, however, it would grow at a rate below the trend. The Ifo Business Climate index, which provides a picture of the changes of the business climate of the German market, increased by 5.3 base points, to 79.5 base points, on a month-over-previous-month basis; it is, however, 19.0 base points less than one year before. This was still because of the economic shock caused by the coronavirus pandemic. In the light of the above, the external environment will continue to hold back the expansion of the Hungarian output in the coming months. The lockdown and the forced closing of some shops caused retail sales to fell substantially on a year-on-year basis in April 2020. Despite the considerable decrease, consumers are expected to generate some of the missing turnover after the lockdown is lifted, which means that this sector could continue to contribute to economic growth. The consumer trust index, measured by Eurostat, improved by 9.2 index points on a month-over-previous-month basis, although it was 24.5 index points below the level measured for the same period of the previous year. 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 an approximately 3.0% downturn in 2020; this could, however, be materially affected by the 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



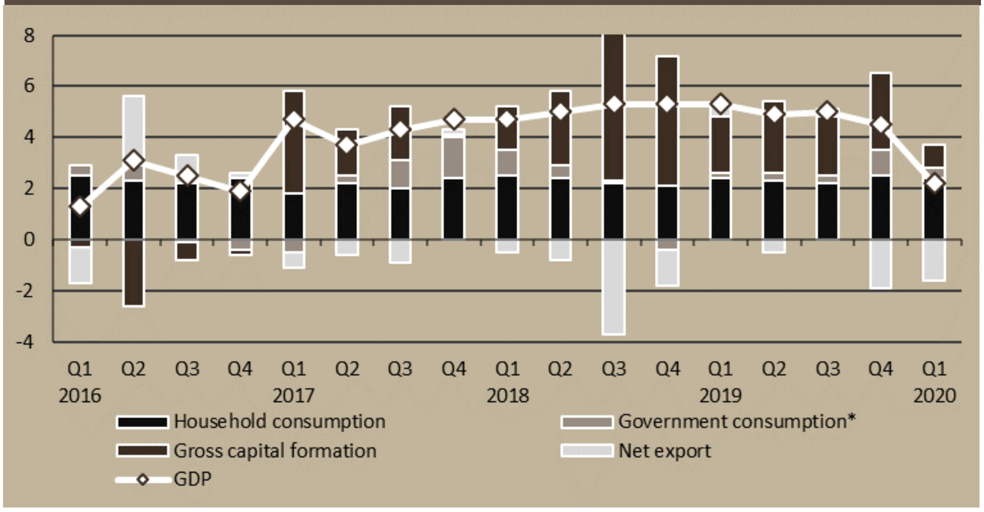
Source: Századvég

Real economy

The output of the Hungarian economy increased by 2.2% in Q1.

The second estimate of the Hungarian Central Statistical Office showed that the GDP increased by 2.2% in Q1 2020. Seasonally and calendar-adjusted data show that the GDP volume was 2.0% higher than in the same period of the previous year and 0.4% below the figure for the preceding quarter.

Fig 2 Contribution to y-o-y GDP-growth (expenditure approach; %)



Source: HCSO. *: with any kind of social transfers

On the production side, the added value generated by agriculture was 0.6% lower than one year before. In the period under review, the added value generated by the industry increased by 1.7%; within it, the manufacturing industry increased by 1.3% relative to Q1 2019. The added value generated by the construction industry in Q1 2020 was 3.0% higher, that of services was 2.4% higher than one year before. Industrial output added 0.4 percentage points, the output of the construction industry added 0.1 percentage points, that of services added 1.2 percentage points to the GDP growth rate, while agriculture's contribution was neither positive nor negative.

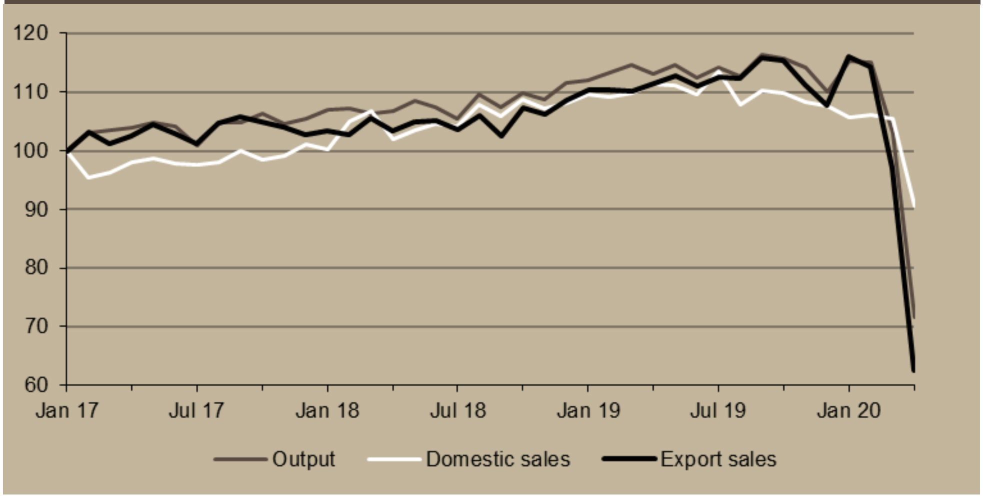
In terms of consumption, household consumer spending increased by 5.0% in one year, the volume of community consumption increased by 2.4% relative to Q1 2019. Consumption could increase partly because, in the beginning of the year, family incomes could still increase dynamically, at a rate substantially higher than the inflation rate, but also because of the stocking up in February and March, caused by the coronavirus pandemic. In contrast to its considerable growth in the previous quarters, the gross accumulation of fixed assets decreased by 2.6% relative to the same period of the previous year, also because of the coronavirus pandemic.

In Q1 2020, the volume of exports was 0.5% below the level recorded for the same period of the previous year, while that of imports was 1.3% higher. Hence, the foreign trade balance reduced the growth of the GDP by 1.6 percentage points. Within total exports, the export of services decreased by 5.5%, that of goods increased by 0.7% on a year-on-year basis. As for imports, the import of services decreased by 4.8%, that of goods increased by 2.5%, relative to the same period of the previous year.

Industrial output fell drastically in April.

The pandemic drastically reduced industrial output in April, by 36.8% according to raw data and by 36.6% according to workday-adjusted data. This is attributable to the disruption of supply chains and, to a lesser extent, the reduction of demand. On a month-over-previous-month basis, the sector's output shrank by 30.5%. The sector's sales volume shrank by 34.8%. More specifically, domestic sales fell by 18.6%, export sales fell by 43.4%.

Fig 3 Industrial output and sales (January 2016 = 100%)



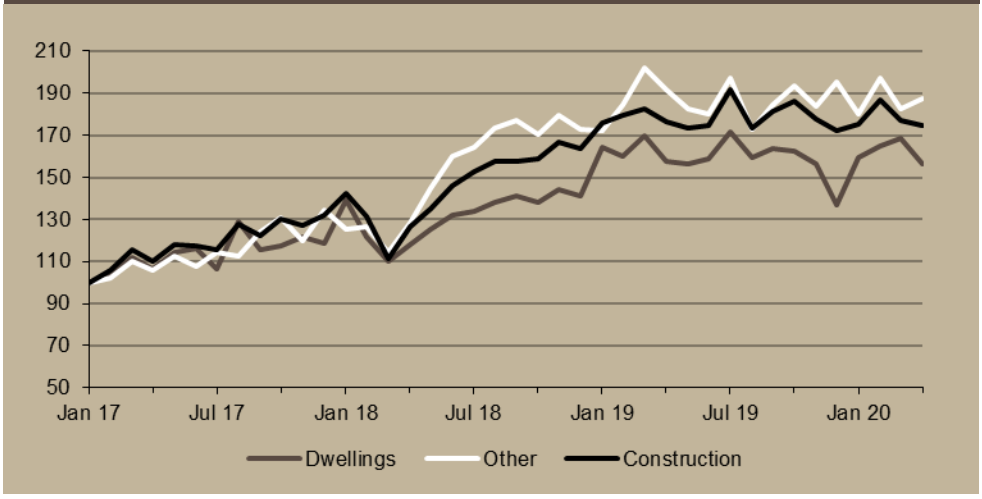
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Breaking down the output of the entire industry as a sector, one can see that the output of mining shrank by 38.6%, that of the manufacturing sector shrank by 38.2%, and that of the energy industry shrank by 4.4%. Breaking down the manufacturing sector, one can see that only one of its subsectors, the pharmaceutical industry, could increase its output (by 19.4%). The biggest downturn (79.5%) was recorded in the automotive sector, which generates a large portion of the total output of the manufacturing industry. This was followed by the textile industry (45.4% decrease) and coke production and petroleum processing (42.5% decrease). The end-April aggregated value of contracts in the manufacturing sectors followed up by the Hungarian Central Statistical Office was 4.7% less than one year before. More specifically, the aggregated value of domestic sales orders shrank nearly as much as that of export sales orders. The aggregated value of new contracts, however, decreased significantly, by 41.9%. More specifically, the aggregated value of new domestic sales orders shrank by 34.4%, that of new export sales orders shrank by 43.2%.

The output of the construction industry shrank only slightly during the lockdown.

The April output of the construction industry decreased minimally, by 2.1% on a year-on-year basis. Relative to March, this industry's output shrank by 1.3%. The annual comparison shows that the output in both building groups shrank similarly: the volume of buildings decreased by 1.4%, that of civil engineering works decreased by 2.8%. The aggregated value of contracts continued to shrink in April as well and was, therefore, 15.4% smaller than one year before. More specifically, the aggregated value of contracts for buildings increased by 5.9%, that for civil engineering works decreased by 24.3%, which is explained by the gradual phasing out of EU funds. Compared to the same period of the previous year, however, the aggregate value of new contracts increased by 3.9%. More specifically, the aggregate value of new contracts for buildings was 4.7% higher, that for civil engineering works was 3.2% higher than one year before.

Fig 4 Construction sector (January 2016 = 100%)



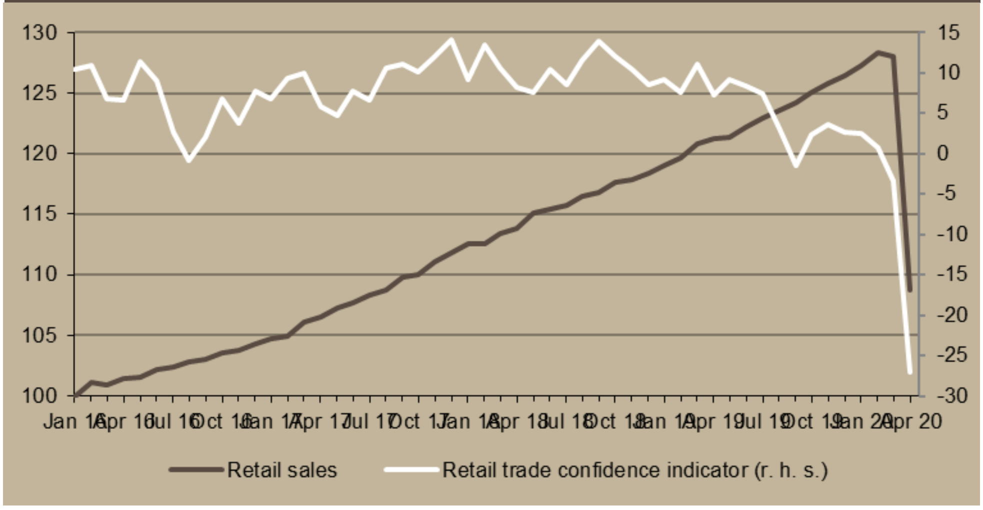
Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

Retail sales shrank by 10%.

In April 2020, the state of danger caused by the epidemic and the imposed legal restrictions affecting retail sales affected sales in all types of shops. Raw and calendar-adjusted data show that retail sales shrank by 10.2% relative to the same period of the previous year. The April 2020 calendar-adjusted sales volume was, relative to April 2019, 0.4% lower in specialised and non-specialised food shops, 14.8% in nonfood shops and 26.3% in fuel retail.

Parcel companies and web-shops continued to dynamically increase their sales in April as well; moreover, the coronavirus epidemic accelerated the growth of their sales, which was, according to calendar-adjusted data, 103.5% higher than in April 2019. Besides that, specialised and non-specialised food shops could also increase their sales (by 2.5%). A considerable decrease in sales was, however, recorded in the case of second-hand shops (79.6%), shops selling books, newspapers, and stationery, as well as textile products, clothing, and footwear (89.8%). Sales also decreased considerably in the case of shops selling furniture and electric goods (23.8%), fragrances (28.6%), pharmaceuticals and medicinal products (14.9%), relative to the same period of the previous year. Calendar-adjusted data for April 2020 show that the sales volume of shops selling computers and other manufacturing goods decreased by 33.1%, but that of shops selling foodstuffs, beverages and tobacco products increased by 9.5%, relative to the same period of the previous year. Vehicle fuel sales were in turn 26.3% below the figure recorded for April 2019.

Fig 5 Retail sales volume (January 2016 = 100%) and retail trade confidence indicator

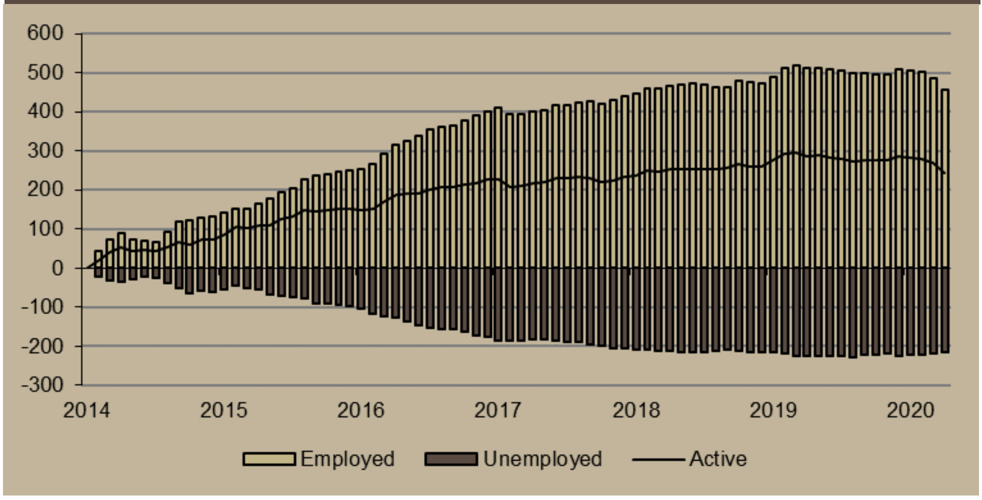


Remark: Seasonally and working-day adjusted data
Source: HCSO, Eurostat, Századvég

Because of the pandemic, the unemployed appeared among the inactive.

Employment continued its decline in April as well. Seasonally adjusted data show that the number of employees was 28,000 lower, 4,460,000 in total, on a month-over-previous-month basis. This lower level of employment did, however, not mean an increase in unemployment. Seeing the epidemic and the lockdown, many people who were laid off did not immediately start to look for a new job; therefore, according to the international definition given by the ILO and applied in all EU Member States, they may not be regarded as unemployed, and the Hungarian Central Statistical Office classifies them as inactive. Seasonally adjusted data show, therefore, that the number of the unemployed increased only by 1,000, to 169,000, and the unemployment rate increased to 3.7%. Institutional statistics show that, in April, the seasonally adjusted number of the employed reduced by 10,000, relative to March. In other words, difficulties along the supply chains had already had a negative effect on Hungarian businesses. This statement is also supported by the fact that the entire setback appeared in the business sector: enterprises having at least 5 employees reduced their employee headcounts by 15,000 on a month-over-previous-month basis. By contrast, seasonally adjusted data show that the number of public-sector employees increased by 4,000, and nonprofit organisations increased their employee headcounts by 1,000. March saw the number of employees in public employment schemes drop below 77,000 from the preceding month’s 93,000. This, however, happened partly because the annual work programmes usually start and end in March, which means that this month’s data is always below the annual average.

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

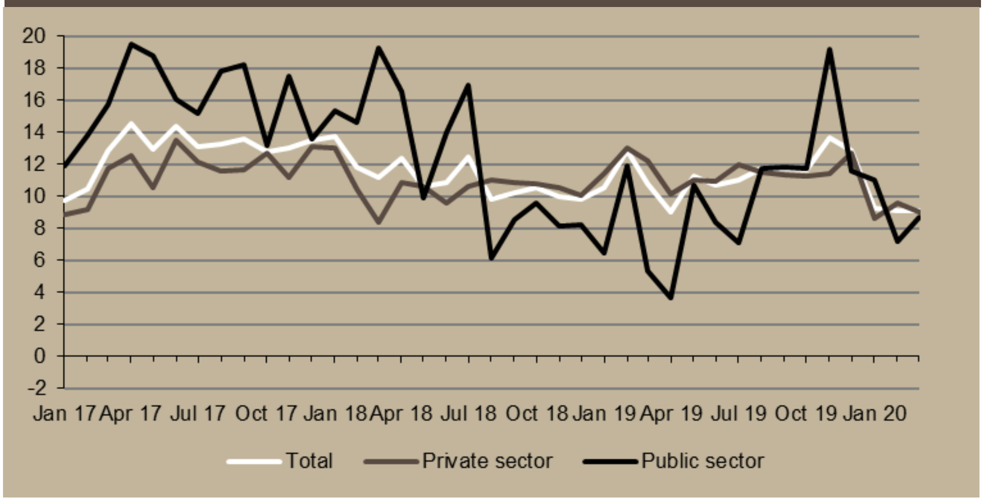


Remark: Seasonally and working-day adjusted data
Source: HCSO, Századvég

The increase of public sector wages is driven by the wage decompression in the healthcare and social care sectors.

Compared to the same period of 2019, the average gross monthly wage increased by 9.0%, to HUF 400,000. The economic situation caused by the coronavirus only partly affected March data; the economic slowdown could, however, have held back the increase of wages. Consequently, the key driver of the wage increase was the 8% increase of the minimum wage and the guaranteed wage minimum at the beginning of the year. Accordingly, business sector wages increased by 9.0% in March 2020. Public sector wages increased by 8.7%, which was driven partly by the mandatory wage increases and the wage decompressions in the healthcare and social care sectors. In March, the average net monthly wage was HUF 266,300; if we take the benefits into account, then it was HUF 275,700. Taking the inflation rate into account, which decreased to 3.9% in March, real wages increased by 5.0%, which is still below the dynamism seen in the past years.

Fig 7 Gross wages (annual change, %)



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

External balance

The volume of foreign trade fell slightly in March but sharply in April.

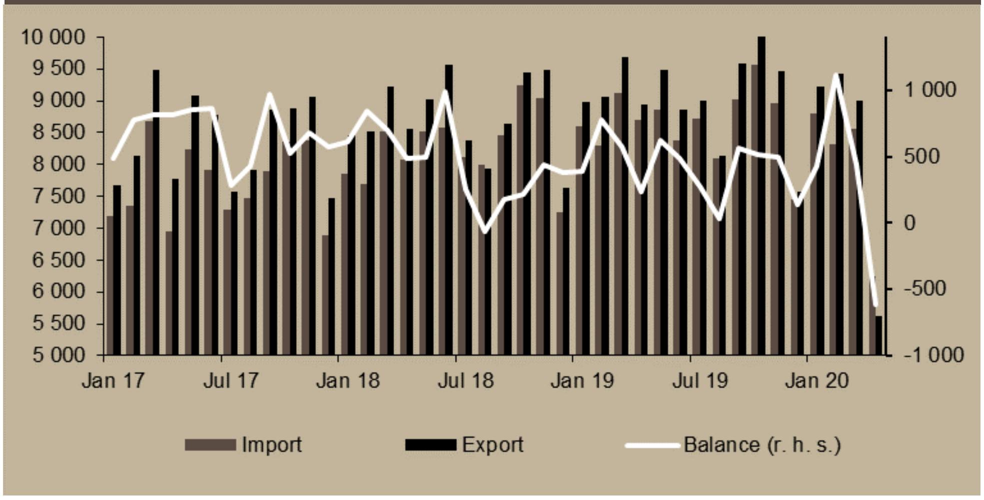
In March, product exports decreased by 7.5% and product imports decreased by 4.2% in EUR value, on a year-on-year basis. This means that the foreign trade balance was EUR 301 million, which is EUR 343 million less than last year.

In March, the volume of food product imports increased by 13.0%, and food product exports increased by 9.3% on a year-on-year basis. As for energy carriers, import dropped by 19.0% and exports dropped by 0.2%. As for processed products, imports increased by 9.2%, exports decreased by 0.8%, on a year-on-year basis. As for machinery and transport equipment, imports decrease by 7.3%, exports decreased by 10.0%.

In April 2020, the EUR value of exports was 37% less, that of imports was 28% less than one year before. The foreign trade balance was minus EUR 611 million, which is 840 million less than one year before.

In April 2020, the current account balance was minus EUR 1,074.5 million. This means that the cumulated current account balance decreased to minus EUR 846.0 million in the fourth month of 2020.

Fig 8 Balance of trade (in million EUR)



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

Fiscal outlook

The coronavirus crisis caused the budget deficit to increase sharply.

The central budgetary subsystem closed the first five months of 2020 with a deficit of HUF 1,051.5 billion, which consisted of the HUF 910.0 billion deficit of the central budget, the HUF 154.3 billion deficit of the social security funds subsector and the HUF 12.8 billion surplus of the extra-budgetary funds.

In terms of revenues, the accumulated corporate tax revenues were HUF 28.7 billion higher at the end of May 2020 than at the same time in the previous year. This is explained by the discontinuation of the tax advance top-up liability, which was only slightly offset by the fact that the deadline for fulfilling tax calculation, return and payment obligations has been postponed from end May to 30 September. Personal income tax revenues and excise tax revenues also increased, by HUF 66.7 billion and HUF 2.1 billion (6.8% and 0.5%), respectively, relative to the period from January to May 2019. Value added tax revenues were, however, less than one year before. The total value added tax revenue until end May 2020 was HUF 1,637.9 billion, which is HUF 106.3 billion (6.1%) less than it was in 2019. This was caused by the higher amount of payment due to the shorter payment deadline for reclaimable VAT (30 days instead of 75 days for normal taxpayers and 20 days instead of 30 days for reliable taxpayers).

Accumulated revenues from EU funds were HUF 486.2 billion in the period between January and May 2020, the related expenses were HUF 967.6 billion. Among the programmes implemented from Hungarian state funds, we should mention the maintenance and operation of the road network (HUF 55.8 billion), the Modern Cities Programme (HUF 29.1 billion), road network renovation (HUF 26.3 billion), investment promotion (HUF 24.4 billion) and the car purchase subsidies for big families (HUF 22.6 billion).

2021: The budget to protect the economy and maintain epidemic preparedness

The minister of finance, Mr. Mihály Varga, presented the draft act on the 2021 budget to the Hungarian Parliament on 26 May 2020, and the final vote on this draft act will be on 6 July at the latest.

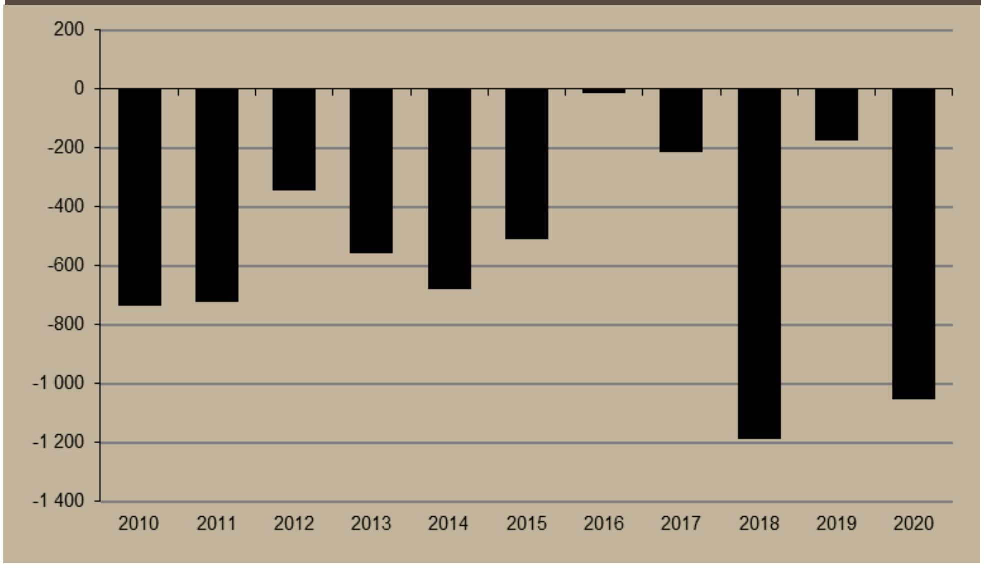
The budget expects that, after the 2020 downturn, the economy would grow at a 4.8% rate in 2021, thanks to the postponed purchases and investments and the recovery of foreign trade. The annual inflation rate could meet the medium-term target of MNB. According to the draft act on the 2021 budget, the public deficit-to-GDP ratio (calculated according to the Maastricht criteria) could be 2.9%, and the sovereign debt could drop from 72.6% to 69.3%.

The budget has a new structure: the Health Insurance Fund merges with the Epidemic Control Fund set up in 2020 into the Health Insurance and Epidemic Control Fund, and the National Employment Fund merges with certain central and header-level appropriations into the Economic Protection Fund. The first one has approximately HUF 3,000 billion, the second one has approximately HUF 2,550 billion.

The measures taken in the Family Protection Action Plan will continue in 2021 and HUF 2,295 billion have been allocated to them. Beyond ensuring the real value of pensions and the funds to cover the pension premium, the 13th-month pension will also be reintroduced, and pensioners will get an extra week's pension in February. Tax cuts will continue: after the cut of the social contribution tax on 1 July 2020, the small business tax rate will also reduce from 12% to 11% as from 1 January 2021. As investment promotion, businesses may apply for development reserves up to the total profits before taxation, but up to maximum HUF 10 billion. The 2021 budget of the Start Work Programme is HUF 25.0 billion higher than in 2020, because the number of people in public employment schemes is expected to increase as a result of the coronavirus pandemic.

Calculated with 2020 prices, the budget allocates 4.8% more to the healthcare sector and 14.1% more to homeland security and public security. Education funds will increase minimally, by 0.6% in real terms, which is explained by the increase of funds for primary, secondary and other education and the decrease of funds for higher education. Calculated at 2020 prices, pensions will increase by 59%, while housing subsidies will reduce by 18.3%.

Fig 9 Cumulated budget deficit (Jan–May, in bn HUF)



Source: Ministry of National Economy

Monetary developments

Decreasing fuel prices reduced the inflation rate to 2.2%.

In May 2020, consumer prices increased by 2.2 percent on average—compared to the same period of the previous year. In the past year, the highest price increases were recorded for foodstuffs, alcoholic beverages, tobacco products, while the inflation was held back by the slow increase in the prices of services and the significant drop in fuel prices. In comparison with the same period of the previous year, the price of alcoholic beverages and tobacco products increased by 6.7% on average, while that of food products increased by 8.4%. 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 11.1% as compared to the same period of 2019.

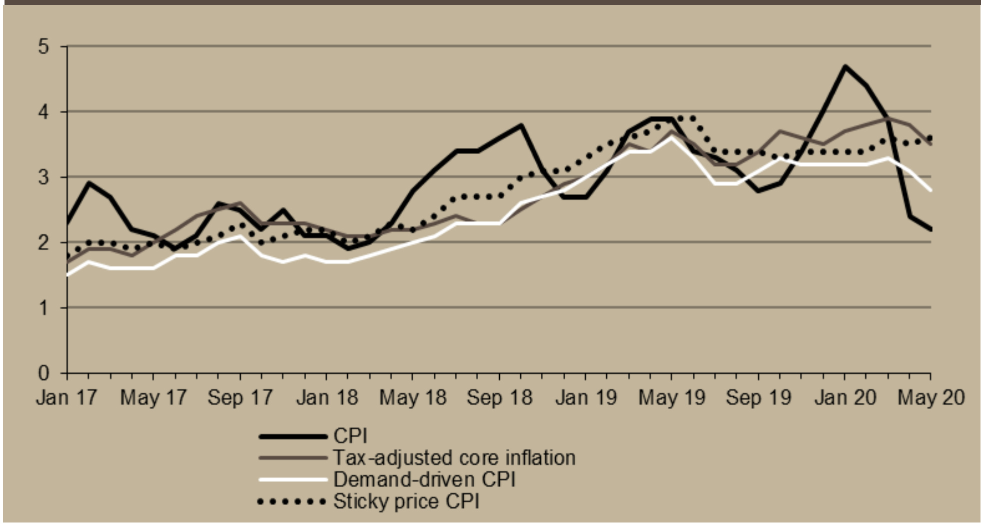
The 8.4% average price increase of food products was driven mainly by the 22.0% increase in Extrawurst and sausage prices, the 20.7% increase in pork prices and the 39.0% increase in fresh Hungarian and tropical fruits. The increase in pork prices is attributable to the swine fever virus. The average inflation of food products was, however, reduced by the decrease in potato and pastry prices (1.6%) and coffee prices (2.4%).

In May, prices of other products and fuels dropped by 7.7% on average, mostly because of the 22.0% drop in vehicle fuel prices. This was caused by the collapse of oil prices, which is explained by the drop in demand as a result of the coronavirus epidemic and the oil price war between Russia and Saudi Arabia. In addition to vehicle fuels, sports gear and toy prices increased by 2.2%, pots and kitchenware prices increased by 3.3%. The average increase in household energy prices was 0.3% in May as compared to the same period of the previous year. Within household energy, the price of bottled natural gas increased by 0.8%, fuelwood prices increased by 2.8% and coal prices increased by 3.3% in one year. The price of electricity, pipeline gas and district heating remained unchanged.

In May, the prices of services increased by 2.6% on average, which was driven by the 4.3% increase of rents, the 11.7% increase in home repair and maintenance prices, the 9.3% increase in vehicle repair and maintenance prices and the 7.8% increase in gambling prices. The average price increase of services was moderated by the 6.0% decrease in the prices of other long-distance travels and the 21.5% decrease in motorway tolls, vehicle renting and parking prices. Clothing prices decreased by 1.1% and the prices of durable consumer goods increased by 0.8% on average in a single year. Taking a closer look at the latter, one can see that jewelry prices increased by 22.8%, new car prices increased by 8.0%, but used car prices dropped by 6.2%.

Based on the base inflation indicators disclosed by MNB, the core inflation rate was 4.0%, while the core inflation rate excluding the effects of indirect taxes was 3.5% in May. The demand-sensitive inflation rate was 2.8%, the sticky price inflation rate was 3.6% in May.

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



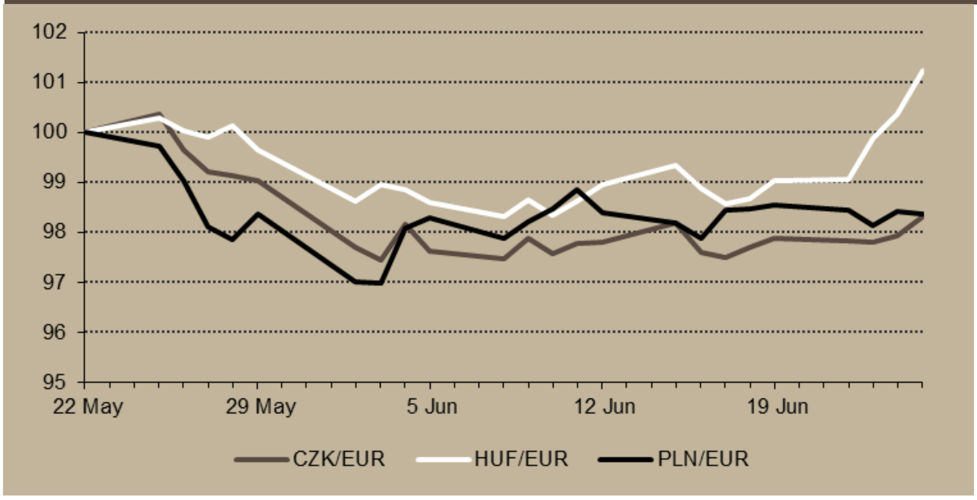
Source: NBH, Századvég

The Polish central bank reduced its reference interest rate.

Both the ECB Governing Council and 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%.

The trends in our region showed a slightly improving picture. Both the Czech koruna and the Polish zloty have strengthened against the Euro, by 1.7 and 1.6 percent, respectively. The Polish central bank decreased its reference interest rate from 0.5% to 0.1%. At the end of the period, the CDS spread (5-year CDS) was 2 base points lower, 38 base points, in the Czech Republic and was 1 base point higher, 58 base points, in Poland.

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



Source: Thomson Reuters Datastream

Indicators of the Hungarian financial market showed a mixed picture.

Indicators of the Hungarian financial and foreign currency markets have shown a mixed picture in the part period. The value of the 5-year CDS spread increased by 1 base point to 79 base points. The HUF weakened by 1.2% against the Euro and by 0.7% against the Swiss Franc, but it strengthened by 1.7% against the US Dollar. This means that on 26 June, one Euro was worth 354 Forints, one US Dollar was worth 315 Forints and 1 Swiss Franc was worth 332 Forints. Sovereign debt held by foreigners has recently increased by HUF 153 billion to HUF 4,318 billion.

The MNB lowered its reference interest rate.

At its interest rate setting meeting in June, the Monetary Council of the MNB reduced the reference interest rate by 15 base points; the base interest rate decreased, therefore, to 0.75%. The MNB gave 4 reasons for its interest rate decision (more specifically, the fine-tuning of interest rate conditions): the economy had grown weaker than expected, stronger deflation effects, improving money market sentiment and interest rate reductions in the region. The MNB Monetary Council did not change the interest rate corridor 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. Over the past period, the MNB purchased government securities for HUF 148.94 billion on the secondary market. It has purchased mortgage bonds for HUF 10.5 billion on the primary market and for HUF 39 billion on the secondary market.

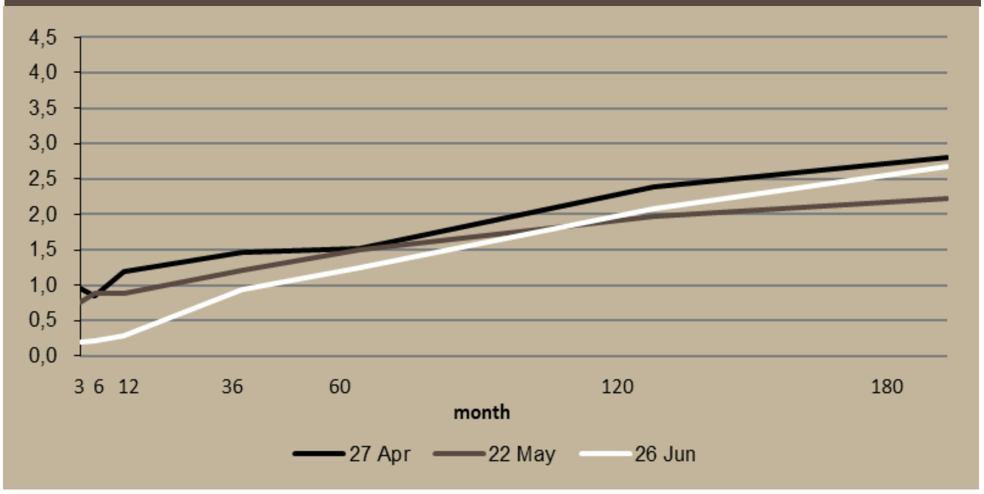
In the last month, shorter-term yields changed by between -57 and -68 base points on the secondary market yield curve of the government securities market. This means that the 3-month yield was 0.19%, the 6-month yield was 0.21% and the 1-year yield was 0.29% on 26 June. The 3-year yield decreased by 27 base points to 0.94%. On a month-over-previous-month basis, 5-year yields decreased by 25 base points, 10-year yields increased by 10 base points, and 15-year yields increased by 44 base points. These three yields changed, therefore, to 1.25%, 2.08% and 2.67%, respectively. Short-term yields decreased because of 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.

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 4,145 billion had been issued from this government bond by end May. 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, the March 2020 issue was worth HUF 184 billion, the April 2020 issue was worth HUF 67 billion, and the May 2020 issue was worth HUF 206 billion.

The share of foreign currency debt in the sovereign debt changed to 17.2% in May (corresponding to an decrease of almost 0.3 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 coronavirus pandemic, the Government Debt Management Agency Ltd. collected a part of the required funds, EUR 1.5 billion (after the previous EUR 2 billion), from the foreign exchange market in June. 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 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 12 The HUF yield curve (%)

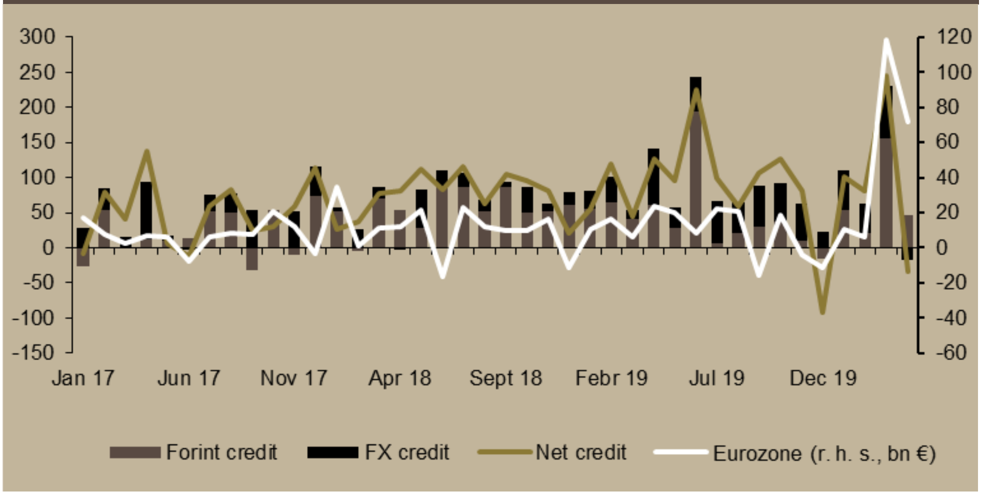


Source: Government Debt Management Agency, Századvég

Corporate credits have shrunk.

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 45.6 billion in April 2020, which means that credits decreased by HUF 111 billion on a month-over-previous-month basis. The net repayment of foreign currency debt was HUF 18.3 billion in April 2020, i.e. the aggregated value of business credits decreased. Seasonally adjusted data show that the total net loan repayment was HUF 33.2 billion in April. At EUR 71.5 billion, corporate borrowing remained high in the eurozone in April as well.

Fig 13 Corporate borrowing (in billion HUF)



Source: NBH, ECB, Századvég

In April, the value of gross loan placement in Hungarian forints over and above bank overdrafts was HUF 84.4 billion, which is HUF 79.8 billion less than the amount of the previous month. The sum of newly granted euro-loans was HUF 36.1 billion, which is HUF 6.6 billion less than the figure for March.

Macroeconomic update by Századvég Economic Research Institute

Economic downturn may exceed 3 percent this year.

Although we expect that the coronavirus downturn will be less severe in Hungary than the EU average, partly because of the positive baseline economic situation, but also because of the relatively fast passing of the virus, the pandemic will still leave its mark on our economy. The Hungarian GDP might be somewhat more than 3% less than in the last year. The key cause of this will be the over 6% decrease in exports, mostly because of the shutdown of tourism and the downturn in industrial production. The initial turbulences in industrial production were caused by the difficulties in purchasing raw materials and semi-finished products. The current turbulences are, however, caused by the reduced external demand. The purchasing of healthcare products is causing imports to shrink less than exports, only by 5.2%, which could further reduce our foreign trade balance this year.

The volume of government and business investments could shrink, by 5.6% according to our expectations. Although consumption was the driver of growth in Q1, it is expected to shrink slightly, by 0.3%, in the whole year. This is explained by several factors such as the fact that several services became unavailable in the lockdowns and some products were more difficult to purchase. In the long run, demand is held back by the increasing unemployment and the increase of part-time employment.

The coronavirus shutdowns meant layoffs. Although the now free workforce could be rehired after the economy is restarted, the number of persons employed could be 100,000 less this year than it was last year, and the unemployment rate could increase to 4.7%. Employment could start to increase again with the restarting of the economy, but it is not expected to reach its previous, outstandingly high level in 2021 either, when the unemployment rate could be 4.4%.

We expect that the economy would bounce back in 2021, with a growth rate over 5.0%. More specifically, consumption, investments, and net exports will all contribute to growth. Consumption could increase by 4.4%, investments could increase by 4.3%. Exports and imports could increase at two-digit rates, explained by the weak reference levels and the still high 2020 investment rate.

The inflation rate decreased from 4.7% in January to 2.2% in May, as a result of the collapse of oil and fuel prices. Food prices did, however, increase dynamically, and basic inflation trends did, therefore, still remain strong. After the 3.2% inflation rate of 2020, we expect that oil prices will stabilise by 2021, and the inflation rate would increase to 3.7%.

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.

Disclaimer