

# MONTHLY MONITOR

September 2022

Századvég Economic Research Institute



SZÁZADVÉG

# Table of Contents

|   |           |
|---|-----------|
| <b>1. Summary</b> .....                 | <b>2</b>  |
| <b>2. Overview of the economy</b> ..... | <b>3</b>  |
| 2.1 External environment.....           | 3         |
| 2.2 SZIGMA indicators.....              | 4         |
| 2.3 The real economy.....               | 6         |
| 2.4 External balance.....               | 12        |
| 2.5 Fiscal outlook .....                | 13        |
| 2.6 Monetary developments.....          | 15        |
| <b>3. Századvég's forecast</b> .....    | <b>21</b> |

## DISCLAIMER

*This publication is the intellectual product of Századvég Konjunktúrakutató Zrt., and has been produced for the information of its partners on the basis of data provided by external parties. Accordingly, the findings and forecasts in this publication are not intended to serve as professional or other advice, and Századvég Konjunktúrakutató Zrt. assumes no responsibility for the effectiveness of any decisions based on them.*

# 1. Summary

**IN SEPTEMBER, THE CENTRAL BANK RAISED THE BASE RATE BY 125 BASIS POINTS TO 13.00%**

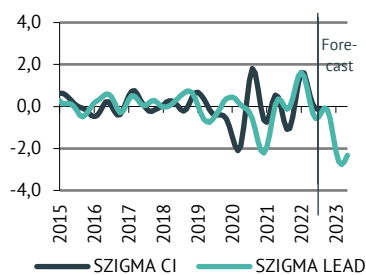
In August 2022, inflation risks continued to rise both globally and in Central and Eastern Europe. This is mainly caused by a sharp rise in energy prices, more expansionary economic policies during the coronavirus crisis, disrupted supply chains and, crucially, the consequences of the increasingly protracted Russo-Ukrainian war.

The sharpest monetary erosion was in the Baltic countries and Central and Eastern Europe. According to the Harmonised Index of Consumer Prices (HICP), consumer prices rose by 25.2% in Estonia, 20.8% in Latvia and 21.1% in Lithuania.

The inflation environment caused by the war is forcing central banks to raise interest rates. Hungary has the highest base rate in the region (13.00%), following the central bank's September rate hike (125 basis points).

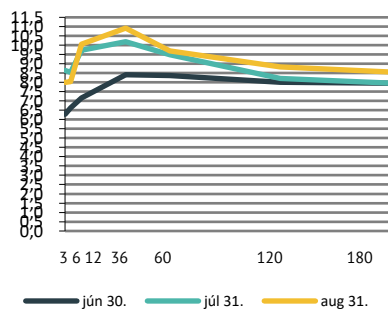
In an environment of higher interest rates and higher inflation, there is a trend towards a preference for premium Hungarian government bonds with above-inflation yields over those with fixed yields.

## SIGMA indicators



Source: Századvég

## Forint yield curve (%)



Source: Refinitiv

| Forecast<br>(21.06.2022)                | 2022 |
|---|------|
| Change in the GDP (%)                   | 5.4  |
| Inflation<br>(annual average, %)        | 10.3 |
| Gross wages<br>(year-on-year change, %) | 16.5 |
| EUR/HUF<br>(annual average)             | 389  |

## 2. Overview of the economy

### 2.1 External environment

**Among the euro area countries, the Baltic States are the most affected by monetary erosion:**

Inflation in the euro area continued to rise in August. Compared to the same period last year, consumer prices increased by 9.1%. The biggest increase was in energy prices: the 38.3% average increase was mainly due to the war and the misguided sanctions policy in response. Prices of food, alcohol and tobacco also increased significantly, by 10.6% compared to the same period last year. Inflation was held back mainly by a 5.0% rise in the prices of non-energy goods and a 3.8% rise in the prices of services. Among the euro area countries, the Baltic States are the most affected by monetary erosion: In Estonia it was 25.2%, in Lithuania 21.1% and in Latvia 20.8%. Average inflation was 13.6% in the Netherlands, 13.3% in Slovakia, 11.1% in Greece and 10.3% in Spain. The lowest rate of monetary erosion was in France, at 6.5%. On a monthly basis, the largest increases were recorded in Estonia (2.4%) and the Netherlands (2.3%), while Finland and Greece recorded decreases of 0.4% and 0.3% respectively.

With inflation rising steadily, the weak euro and the Russo-Ukrainian war negatively impacting the European economic outlook, the ECB continued its rate hike cycle, raising the base rate by 75 basis points. This alone may not be a sufficient response to bring down inflation, and the ECB will probably decide to reduce the amount of maturing bonds by the end of the year. A restrictive policy would be in line with other major central banks: the US Federal Reserve (FED) and the Bank of England have already started this process to bring down inflation. However, this also carries risks. On the one hand, it will increase the long-term borrowing costs for eurozone governments and, on the other, it could push the eurozone economy, which is suffering from soaring energy prices, into recession. However, the need to curb demand, reduce inflation and maintain exchange rate stability overrides everything else.

## 2.2 SZIGMA indicators

### The Hungarian economy's below-trend expansion has slowed.

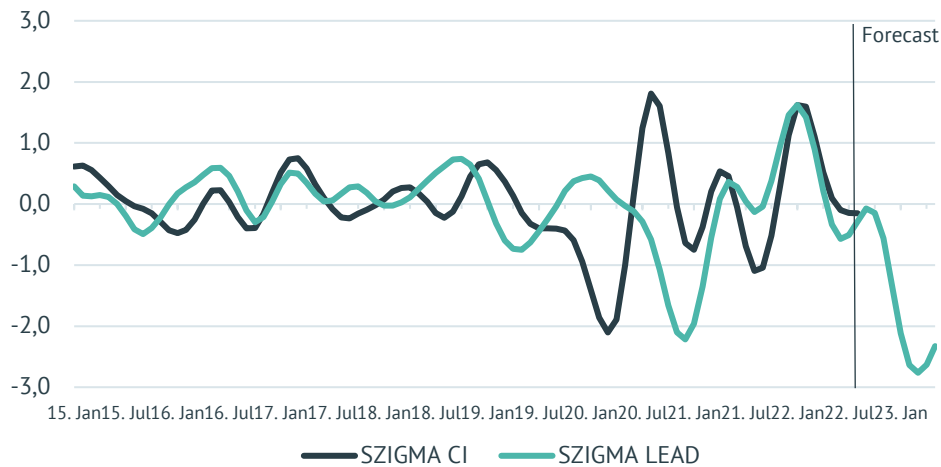
in August 2022, the SIGMA CI indicator moved in negative territory at a slowing pace. For the indicator on the current state of the Hungarian economy, this means that although the Hungarian economy has been growing at a below-trend level since June 2022, its below-trend rate has been declining. While this below-trend increase decreased from June to July 2022 by -0.047 index points (to -0.148 index points), it decreased from July to August 2022 by -0.005 index points (to -0.153 index points). So, the rate of below-trend growth has fallen.

in July 2022, on an annual basis, both the volume of industrial domestic sales and the volume of industrial export sales increased for seasonally and working-day adjusted industrial sales volume data. However, on a month-on-month basis, while the volume of domestic sales decreased, the volume of industrial export sales increased. In July 2022, domestic sales volume decreased by 2.6% compared to the previous month, mainly due to the high base in the previous month. However, on a year-on-year basis, domestic sales increased by 5.8%. On the other hand, the volume of export sales increased by 2.7% on a monthly basis and by 8.4% on an annual basis. The *volume of new industrial domestic sales orders* fell by 13.3% month-on-month and 10.1% year-on-year, partly due to the high base, which also reflects adjustment and anticipation among economic operators to the unfavourable economic environment. The situation is slightly better for new industrial export sales orders, which stagnated on a monthly basis but rose by 12.3% on an annual basis. In sum, the contribution of industry to economic growth may be positive, even though domestic new sales orders in the industry have declined, but a number of serious risks remain. Such risks include the Russo-Ukrainian war, once-in-a-century droughts, the energy crisis and its economic impacts, and problems with raw material supply (e.g. shortages of chips, glass, steel, construction materials, fertilisers, etc.). The total contract value for *construction* at the end of July 2022 was 10.3% below the level of the previous month. On an annual

basis, however, it was essentially flat, or more precisely it grew by 0.3%, within the margin of error, compared with July 2021. This year-on-year stagnation was due to a 14.7% decrease in contracts for the construction of buildings and a 12.2% increase in contracts for civil engineering works. In July 2022, the number of new non-residential buildings to be built in terms of building permits issued increased by 17.2% on a monthly basis and by 4.8% on an annual basis.

The SZIGMA LEAD indicator, which reflects our expectations for the short-term performance of the Hungarian economy, points to a strong below-trend growth until the end of the forecast horizon. The Ifo Business Climate index, a gauge of business sentiment in the German economy, was unchanged in August 2022 compared with the previous month, while it was down by 11.0 index points compared with a year earlier. The decline in the confidence index is due to continued uncertainty among businesses about the economy as a whole. The calendar-adjusted volume of retail sales rose by 4.3% year-on-year in July 2022, a slight decline from the previous month's 4.5% increase, but reflecting a downward trend compared with the monthly retail sales between February and June this year (2022). Non-food products contributed 1.1 percentage points to the 4.3% increase in the volume of retail sales, while fuels contributed 4.5 percentage points. At the same time, food reduced the growth in the volume of retail sales by 1.3 percentage points. The decline in food retail sales started last month and is expected to accelerate further as food prices rise above inflation. Eurostat's consumer confidence index continued to fall on a monthly basis (by 8.5 index points) and on an annual basis (by 25.2 index points). It stood at -46.1 index points in August 2022. The increasing negative index value suggests that the segment's turnover could be increased by restoring consumer confidence. The negative index value implies that an improvement in confidence could further expand sales of the segment. Overall, we expect the economy to grow at a rate close to 4% in 2022.

**FIGURE 1: CURRENT (CI) AND FORECASTING (LEAD) SZIGMA INDICATORS**



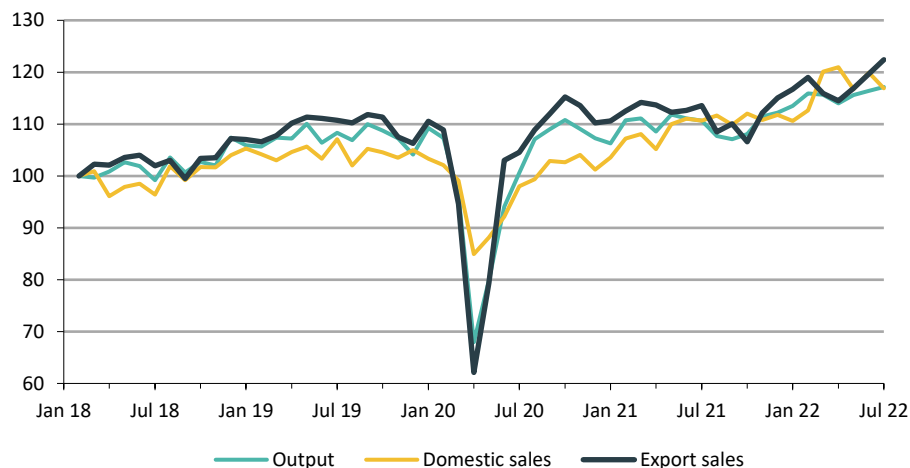
Source: Századvég

## 2.3 The real economy

**in July 2022, the growth of new sales orders in the industry was pulled by exports.**

In July 2022, industrial output rose by 4.0% year-on-year in raw data terms and by 6.6% in working-day adjusted data terms. Industrial output, seasonally and working-day adjusted, expanded by 1.1% in July 2022 compared with the previous month. In July 2022, compared to the previous year, the volume of industrial export sales (4.0%) exceeded domestic sales (3.3%).

**FIGURE 2: CHANGES IN INDUSTRIAL PRODUCTION AND SALES (JANUARY 2018 = 100%)**



*Remark: Seasonally and calendar adjusted indices.*

*Source: Hungarian Central Statistical Office, Századvég*

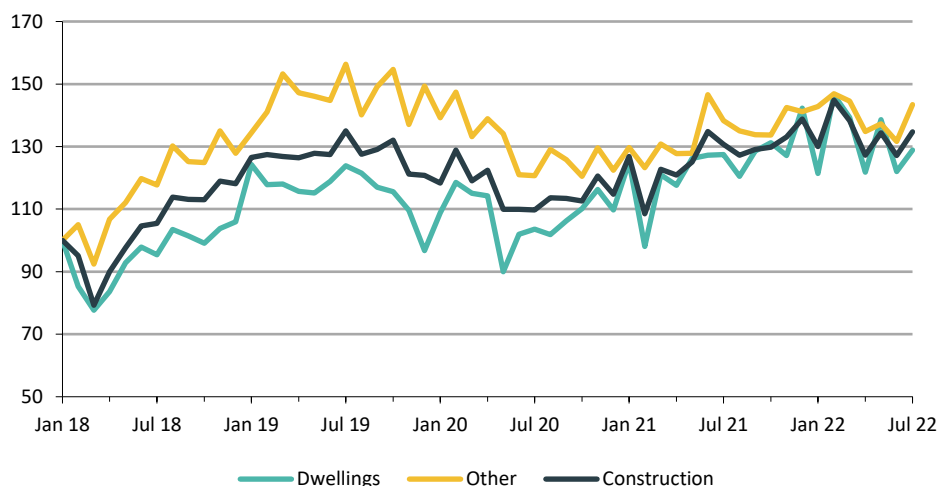
On an annual basis, output in the mining and quarrying sub-sectors was 5.4% higher than a year earlier, while manufacturing output was 3.7% higher and energy output 29% higher. The largest contributor (by weight) to manufacturing output in July was the automotive industry (23.9%). This was followed by food products at 12.8%, electrical equipment at 9.4% and computer, electronic and optical products at 9.2%. The smallest contributor to manufacturing output in July 2022 was textiles, clothing and leather products (0.9%). Within manufacturing, among the sectors with different weights, the largest increase in output (26.3%) was in the manufacture of electrical equipment, followed by the automotive industry (16.6%) and the manufacture of computer, electronic and optical products (14.4%). Therefore, the largest manufacturing sector, automotive, achieved the second highest annual increase in output, although this also included the base effect. The largest decrease in annual output was in the manufacture of chemicals and chemical products (15.5%). In addition, industrial production fell in seven other sectors compared with the same period last year. While the decline in output in the wood processing sector eased, annual output in machinery manufacturing and metal materials and fabricated metal products fell compared with the previous months. Production of rubber, plastics and precious metal mineral products fell by 8.9% year-on-year in July 2022. On an annual basis, the total volume of industrial orders grew by 22.7% at the end of July 2022. This was driven by a 25.3% increase in export sales orders. The volume of domestic sales orders declined by 9.7% compared to the previous year. The volume of new sales orders grew by 8.5% in July 2022, driven entirely by new export sales orders, with new export sales orders up 12.3% year-on-year. At the same time, the volume of new domestic sales orders decreased by 10.1% compared to a year earlier.



**The volume of new sales orders in construction fell by 16.6% year-on-year.**

Construction output in July 2022 rose by 5.8% on a monthly basis and by 3.0% on an annual basis. In the latter case, there is also a high base effect. Despite the high base, the output in both building groups increased year-on-year: buildings increased by 0.5% and civil engineering works by 7.0%. At the end of July 2022, the total value of construction contracts increased by 0.3% year-on-year, driven by a 14.7% decrease in the total value of contracts for buildings and a 12.2% increase in the total value of contracts for civil engineering works. The volume of new sales orders in construction continued to contract, down 16.6% compared to the same period last year. This showed a decrease for both main groups. The volume of new contracts for buildings fell by 20.3%, and the volume of new contracts for civil engineering works fell by 13.0%.

**FIGURE 3: CHANGES IN THE CONSTRUCTION INDUSTRY  
(JANUARY 2018 = 100%)**



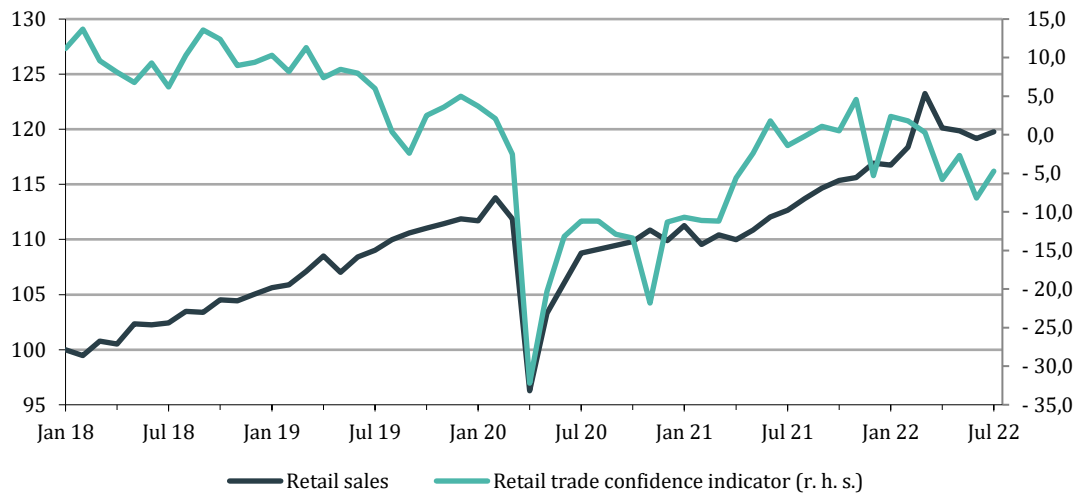
*Remark: Seasonally and calendar adjusted indices.*

*Source: Hungarian Central Statistical Office, Századvég*

## Retail sales increased by 4.3%.

In July 2022, retail sales volume increased by 3.8% on a raw basis and by 4.3% on a calendar-adjusted basis compared with the same period of the previous year. Excluding motor vehicle fuel sales, retail sales volume already fell slightly (0.1%) in July. The slowdown in sales growth is partly due to the increase in the base: a year ago, with the third wave subsiding, the widespread availability of vaccines and thus the reduction of restrictions, consumption started to increase, resulting in a higher base. In addition, rising energy costs due to misguided sanctions policies are creating inflationary pressures in the economy, which are encouraging households to rationalise consumption. Future uncertainty and upside inflation risks are also holding back current consumption. The slowdown is mainly due to the combined effect of these factors. In July 2022, turnover in specialised and non-specialised food shops decreased by 3.3%, while turnover in non-food shops increased by 3.2%. In fuel retail, calendar-adjusted volume of sales increased by 27.6% compared to July 2021. The increase in petrol station sales volumes was supported by the government's introduction of official prices following the coronavirus pandemic, in addition to a significant increase in car use in the summer. The partial phasing out of this is likely to be reflected in the August volume data.

On a calendar-adjusted basis, food, beverages and tobacco declined by 1.3%, while foodstuffs fell by 3.3%. For nonfood retail, the volume index increased in all cases except for a 0.4% decrease in books, newspapers and stationery. This represents an increase of 3.3% for a mixed range of manufactured goods, 4.7% for textile products, clothing and footwear, 1.4% for furniture and electric goods, and 14.3% for second-hand goods. The volume of parcel and internet services increased by 2.9% and that of pharmaceuticals and medical products by 11.1% compared to the same period last year.

**FIGURE 4: VOLUME OF RETAIL SALES (JANUARY 2018 = 100%)**


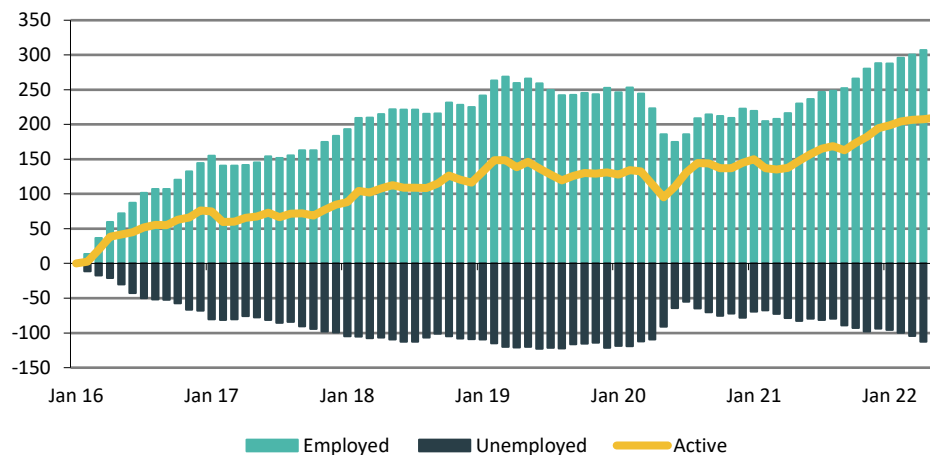
*Remark: Seasonally and calendar adjusted indices.*

*Source: Hungarian Central Statistical Office, Eurostat, Századvég*

### Unemployment rate at 3.4% in August

In June–August, the seasonally adjusted number of employees was around 4,692,000, down by nearly 20,500 from the previous three months, but 56,000 higher than in the same period of the previous year, with an employment rate of 64.06%. The number of the unemployed increased by 6,000 on a quarterly basis, but decreased by 35,000 on an annual basis, with a share of 3.4% in May–July. Compared to the previous months, the economically active population decreased by 19,800, but increased by 20,800 compared to the same period of the previous year, which means that 66.3% of the 15-74 age group was present on the labour market. In July, the number of employees increased by nearly 2,000 on a seasonally adjusted basis, and by 44,000 compared to the same period of the previous year. The most significant increase in the number of employees was in the competitive sector, with 54,000 more working in companies with 5 or more employees compared to 2021, up by more than 2,000 compared to June. The number of non-profit employees rose by a few hundred over the month, while the number of public sector employees fell by nearly 500.

**FIGURE 5: CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)**

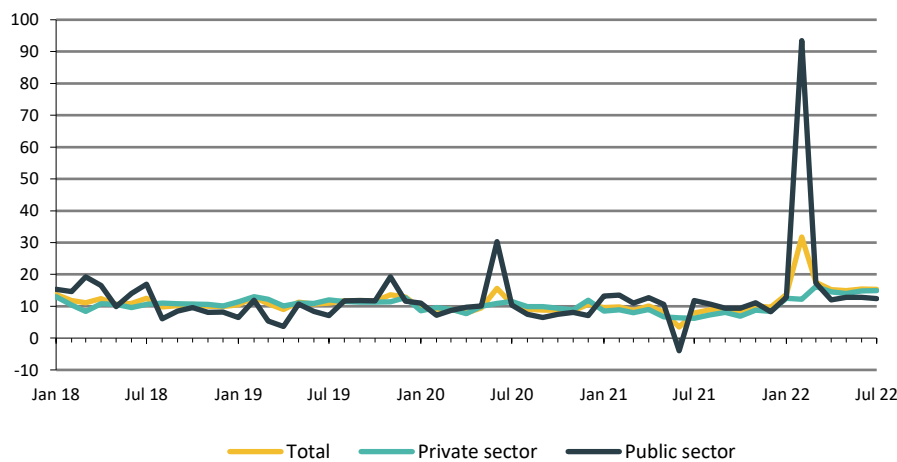


*Remark: Seasonally and calendar adjusted indices*

*Source: Hungarian Central Statistical Office, Századvég*

### The average gross monthly wage was HUF 499,952 in

In July, the average gross monthly wage in the national economy was HUF 499,952, up 15.3% compared to the same period last year. The highest average gross monthly wage was recorded in the non-profit sector, at HUF 510,420. The average net monthly wage including benefits was HUF 344,700, an annual increase of 16.0%. The average regular gross monthly wage, excluding bonuses, rewards and one-off allowances, increased by 14.8% in June compared to a year earlier, to an estimated HUF 465,700. Despite the accelerating inflation, 13.7% in July, real wages still rose at a slowing pace, by 1.4%.

**FIGURE 6: CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)**

Source: Hungarian Central Statistical Office, Századvég

## 2.4 External balance

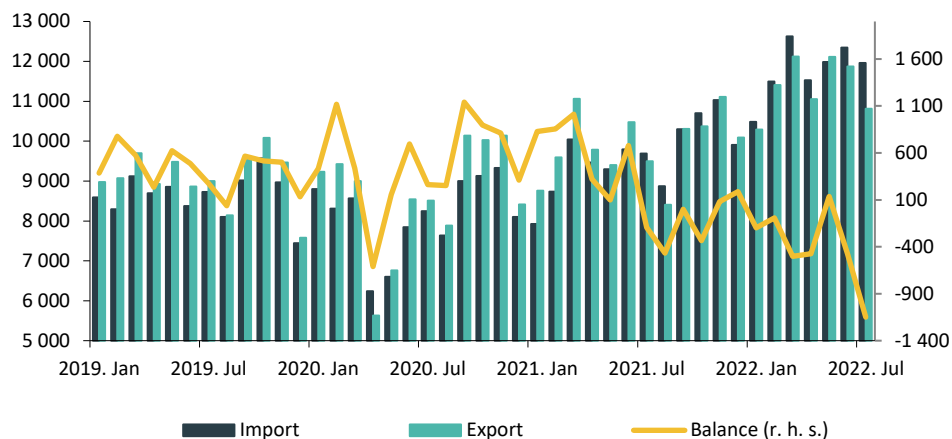
In June, the EUR value of product exports increased by 0.1%, and the EUR value of product imports increased by 2.9% year-on-year. Thus, the foreign trade deficit was EUR 408 million, a deterioration of EUR 954 million compared to the previous year.

In June, the volume of food product imports increased by 12.0%, and food product exports increased by 2.0% year-on-year. As for energy carriers, imports increased by 13.0% and exports decreased by 47.0%. As for processed products, imports increased by 4.5%, and exports increased by 1.9% on a year-on-year basis. As for machinery and transport equipment, imports increased by 6.1%, and exports by 5.1%.

in July 2022, the EUR value of exports was 13.0% higher, while the EUR value of imports was 23.0% higher than one year before. The trade deficit in goods amounted to EUR 1,150 million, which is EUR 975 billion worse than a year earlier.

**The foreign trade balance deteriorated.**

FIGURE 7: FOREIGN TRADE BALANCE (EUR MILLION)



*Remark: The July 2022 figures are from the first estimate.*

*Source: Hungarian Central Statistical Office, Századvég*

## 2.5 Fiscal outlook

**Tax and contribution receipts were 14.5% higher in the first eight months of the year.**

At the end of August 2022, the cumulative deficit of the central budgetary subsystem stood at HUF 2,872.7 billion. This was caused by a deficit of HUF 2,964.6 billion in the central budget and HUF 144.2 billion in social security funds, as well as a surplus of HUF 236.1 billion in extra-budgetary funds.

Receipts from business organisations accounted for 82.3% of the annual target up to August, the highest completion rate of the three main tax revenue groups. Corporate tax revenues, the most significant item, accounted for 92.1% of the annual target by the end of August, exceeding the balance of the same period last year by HUF 141.4 billion (35.3%).

Revenues from consumption-related taxes were 24.3% higher than a year earlier. VAT receipts were HUF 990 billion (29.5%) higher than the cumulative total for the same period of the previous year. By the end of August, 79.2% of the annual target had been met. The increase in VAT receipts was also driven by higher VAT receipts on domestic, import and tobacco products. Excise tax revenue was HUF 23.8 billion (3%) higher than

in January–August 2021. This was driven by higher revenues from tobacco and spirits and other products, and lower revenues from fuels.

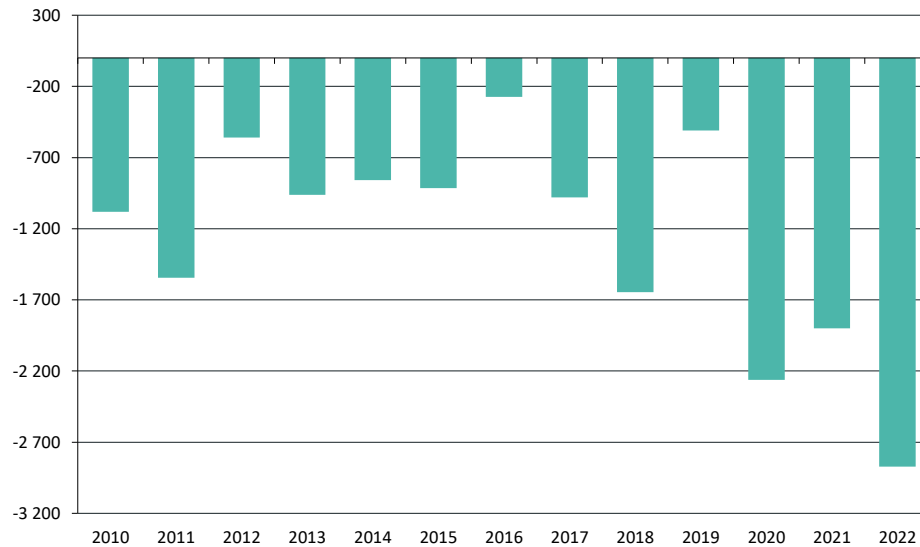
Personal income tax revenues decreased by 14% (HUF 262.8 billion) compared to January–August 2021. The decline is driven by a one-off tax rebate for parents with children, while income tax revenues, which increase as wages rise, gradually mitigate the negative impact. Receipts from social contribution tax and social insurance contributions increased by 11.7% (HUF 402.1 billion) compared to the same period of the previous year. This was due to the combined effect of the increase in average wages and the reduction in the social contribution tax rate.

The cumulative revenue of EU programmes reached HUF 738.7 billion by the end of August 2022, which corresponds to 31.3% of the statutory target. At the same time, the cumulative expenditure of EU programmes closed at HUF 2,245.8 billion, 74.8% of the statutory target.

Among significant expenditure items, expenditure on housing subsidies and chapter-administered professional appropriations was higher than both the year before and the annual appropriations. Expenditure on housing subsidies was HUF 190.4 billion higher than in the same period of the previous year, reaching 98.1% of the annual target. In the first eight months of the year, expenditure on chapter-administered professional appropriations was HUF 1,064.2 billion higher than in the same period of the previous year, and 108.4% of the annual appropriations.

In the January-August period of 2022, cumulative expenditure on retirement benefits amounted to HUF 3,152.9 billion, up by 20.1% compared to the same period of the previous year. During the same period, the Health Insurance Fund spent HUF 2,439.5 billion, an increase of 18.6% compared to the base period. Within this, expenditure on medical and preventive care, which accounts for more than half of the Fund's expenditure, increased by 20.5%.

**FIGURE 8: CENTRAL SUBSYSTEM BALANCE, 2010–2022 JAN–AUG MONTH  
(HUF BILLION)**



Source: Ministry of Finance, Századvég

## 2.6 Monetary developments

**In August, prices increased by 15.6%, on average.**

In August 2022, consumer prices increased by 15.6% on average relative to the same period of the previous year. Over the past year, the prices of food and consumer durables have risen the most (30.9% and 14.8%, respectively). Consumer prices rose by 1.8% on average over a month. The seasonally adjusted core inflation rate showed a year-on-year increase of 19.0%.

The more significant contributors to the 30.9% average increase in food prices were the 66.9% increase in margarine prices, the 64.3% increase in bread prices, the 61.0% increase in cheese prices and the 54.7% increase in dairy product prices. The average inflation of 57.9% for dry pasta, 45.4% for bakery products and 42.0% for eggs also outpaced average food price increases during the month. In contrast, prices of seasonal fruit rose at a below-average rate (15.9%), while sugar (9.3%) and edible oil (5.0%) also showed below-average inflation.

The 19.9% increase in new car prices and the 18.1% increase in used car prices played a particularly important role in the 14.8% average increase in



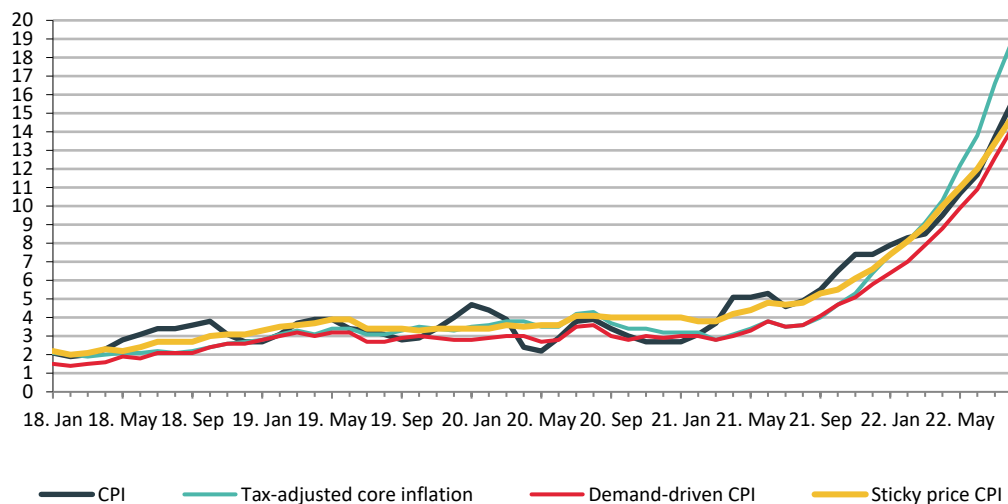
consumer durables. In addition to the weakening forint exchange rate, chip shortages and supply-demand imbalances are also playing an important role in rising prices. Room furniture prices also increased at an above-average rate, by 19.3%, while kitchen furniture prices rose by 20.9% compared to the same period last year. Jewellery also saw a significant price increase of 17.9% in August. Consumer durables inflation is moderated by a 1.9% increase in the prices of computers, cameras and telephones, and a 5.3% increase in the prices of televisions.

The average increase in household energy prices was 2.1% in August as compared to the same period of the previous year. Within household energy, fuelwood prices increased by 11.0% and bottled gas prices increased by 27.4% in a single year. Despite the price boom on the world market, the price of electricity, piped gas and district heating remained unchanged in Hungary up to average consumption, thanks to discount household utility prices, according to the KSH consumer price index. However, changing the terms for discount household utility prices implies upside inflation risks for the period ahead. The harmonised consumer price index expected by the EU already reflected these risks in August, as inflation was 3 percentage points higher based on the HICP. The difference is that for HICP, the price change for each service is accounted for in the month in which the service is actually used, whereas for the domestic CPI, the change is accounted for in the month of the invoice, i.e. the month in which the payment is due, which for utility bills is typically the month following consumption.

In August, the price of services rose by an average of 7.7%, with home repair and maintenance up 21.7%, vehicle repair and maintenance up 18.1% and taxi up 27.3%. The average increase in the price of services was moderated by, among other things, no change in the prices of garbage collection, water and sewerage (100.0%), a 2.7% decrease in the price of local transport and a 1.9% decrease in the price of telephone and internet services. Clothing prices increased by 5.5% on average over a year.

Compared to the previous month, food prices increased by 3.3% on average, the prices of alcoholic beverages and tobacco by 1.9%, the prices of consumer durables by 1.2% and services by 1.3%. As the start of the new university semester approaches, rents have risen by 2.4%.

**FIGURE 9: THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)**



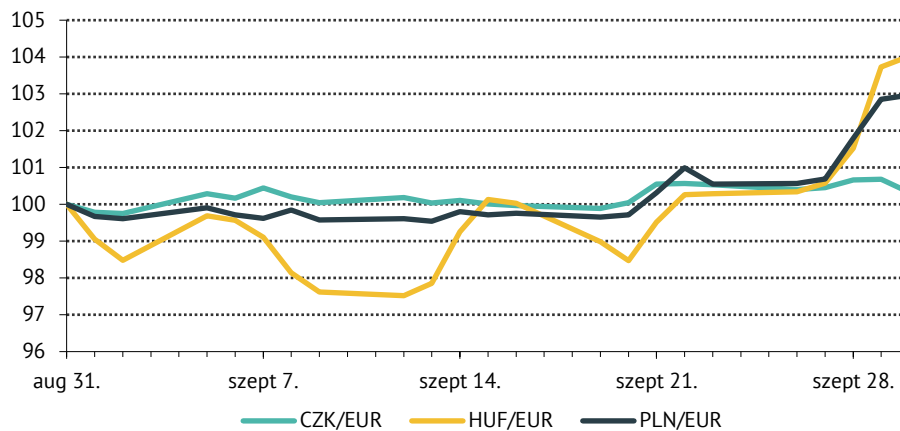
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, in July, the seasonally adjusted core inflation rate was 19.0%, the core inflation rate net of indirect taxes was 18.9%, and the sticky price inflation rate was 14.8%. Core inflation excluding processed food was 14.2% in August.

### Both the Czech koruna and the Polish zloty weakened.

Regional currencies weakened against the euro. In the past period, the Czech koruna weakened by 0.32%, the Polish zloty weakened by 2.97% against the Euro. Government bond yields have risen: the Czech 10-year government bond yield rose by 75 basis points to 5.39%, while the Polish 10-year yield closed up 103 basis points at 7.17%.

**FIGURE 10: CHANGES IN EXCHANGE RATES IN THE REGION  
(BASELINE VALUE = 100%)**



Source: Refinitiv, Századvég

### The HUF/EUR exchange rate fell significantly.

Overall, Hungarian money and foreign currency market indicators have shown a slightly more negative picture in the past period. The 10-year government bond yield closed at 9.94%, rising 90 basis points. The HUF weakened by 4.02% against the euro, by 5.65% against the Swiss franc and by 5.59% against the US dollar. This means that on 30 September 2022, one euro was worth 421 forints, one US dollar was worth 429 Forints and one Swiss franc was worth 439 forints. Sovereign debt held by foreigners has recently decreased by HUF 578 billion to HUF 4,712 billion.

### In September, the central bank raised the base rate by 125 basis points.

At its September interest rate meeting, the Monetary Council of the central bank raised its key policy rate by 125 basis points and announced the end of the rate hike cycle, bringing the base rate to 13.00%. The Monetary Council raised the overnight deposit interest rate to 12.5% and the lending rate to 15.5%. The central bank increased the interest rate of the one-week deposit facility to 13.00%. The MNB has increased the effective interest rate by 1,225 basis points since the start of the rate hike cycle. The asymmetric interest rate corridor defines the overnight interbank market interest rate and the central bank's one-week deposit rate.

In its statement on its September meeting, the Magyar Nemzeti Bank declared that the Monetary Council considers that the current level of the base rate has made interest rate conditions sufficiently tight to ensure that the inflation target is

achieved. The Monetary Council decided to end the cycle of base rate hikes following its 125 basis point rate hike in September.

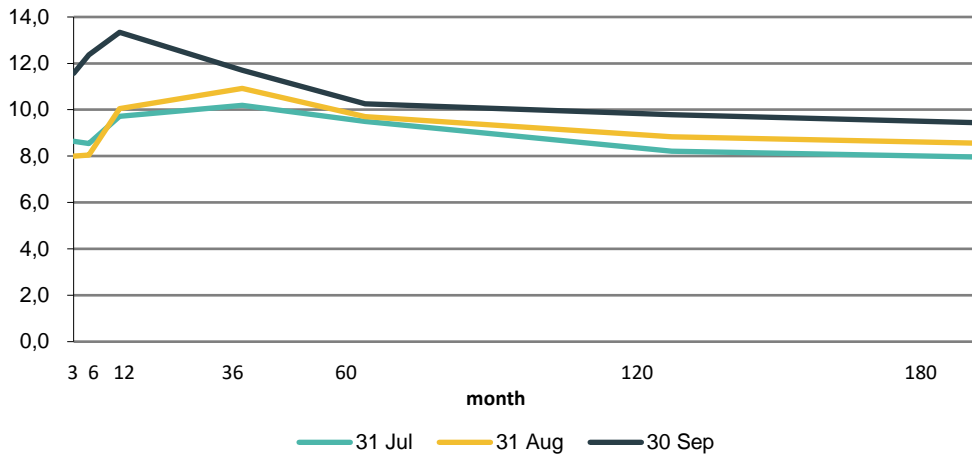
Over the past month in the government bond market, yields for shorter maturities varied between 329 basis points and 433 basis points on the secondary yield curve. This means that the 3-month yield was 11.57%, the 6-month yield was 12.37% and the 1-year yield was 13.34% on 30 September. The 3-year yield rose by 78 basis points to 11.7%. Yields are up 56 basis points over the 5-year horizon, 95 basis points over the 10-year horizon and 88 basis point over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 10.25%, 9.78%, and 9.44%, respectively.

Since 3 June 2019, retail investors can buy “super government bonds” (MÁP+) with a relatively high rate that gradually increases during its term, ensuring a total annual yield of 4.95%. On 30 September 2022, the total value of such government bonds held by retail investors was HUF 3,870.4 billion after a HUF 2491.2 billion increase from the HUF 6,361.5 billion level at the end of 2021. In the high inflation environment, households prefer to hold HUF 3,546.0 billion of government bonds that track inflation and thus offer a fixed real interest rate. This is an increase of HUF 1,343.3 billion compared to the value at the end of 2021. The GDMA currently maintains the interest rate premium on the 6-year government bond at 1.5 percentage points, while the interest rate premium on the 4-year government bond at 0.75 percentage points.

The share of foreign currency debt in the sovereign debt changed to 24.5% in July (corresponding to an increase of 0.9 percentage points), which is in the range (10–25%) specified in the financing plan for 2022 of the Government Debt Management Agency Ltd.

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

**FIGURE 11: CHANGES IN THE HUF YIELD CURVE (%)**

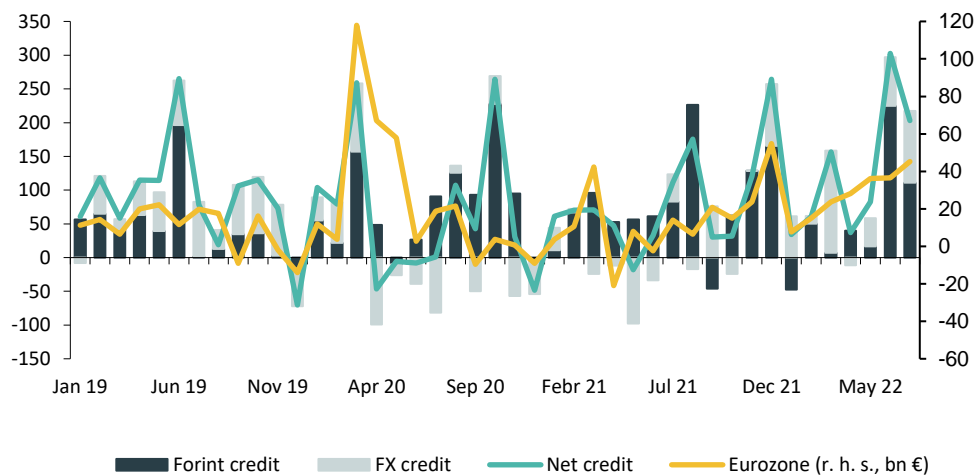


Source: GDMA, Századvég

**Corporate holdings of HUF credits have increased substantially.**

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 111.3 billion in July 2022. The net borrowing of foreign currency loans was HUF 106.0 billion in July; in other words, the aggregate value of foreign currency loans held by the business sector, i.e. exchange rate risk exposure, increased. This means that, based on seasonally adjusted data, total net borrowing was HUF 203.3 billion in July. Corporate borrowing in the euro area was EUR 45.2 billion in July 2022.

**FIGURE 12: CORPORATE BORROWING (HUF BILLION)**



Source: MNB, ECB, Századvég

### 3. Századvég's forecast<sup>1</sup>

1. TÁBLÁZAT: 2022 Q2 FORECAST

|  | 2021   | 2022 |      |      |      | 2022   | 2023 |      |      |      | 2023   |
|--|--------|------|------|------|------|--------|------|------|------|------|--------|
|  | annual | Q1   | Q2   | Q3   | Q4   | annual | Q1   | Q2   | Q3   | Q4   | annual |
| Gross domestic product (volume index)                        | 7.1    | 8.2  | 5.5  | 4.7  | 3.0  | 5.4    | 2.1  | 3.9  | 5.4  | 6.4  | 4.5    |
| Household final consumption expenditure (volume index)       | 4.6    | 14.1 | 8.9  | 6.0  | 5.1  | 8.5    | 2.2  | 2.0  | 4.9  | 4.8  | 3.5    |
| Gross fixed capital formation (volume index)                 | 5.9    | 13.2 | 3.0  | 1.5  | 2.9  | 5.2    | 5.1  | 6.8  | 4.9  | 4.7  | 5.4    |
| Export volume index (based on national accounts)             | 10.3   | 5.2  | 8.7  | 10.1 | 7.9  | 8.0    | 6.5  | 7.4  | 7.9  | 9.2  | 7.8    |
| Import volume index (based on national accounts)             | 8.7    | 8.3  | 9.5  | 9.6  | 10.7 | 9.5    | 6.7  | 6.6  | 6.3  | 6.4  | 6.5    |
| Balance of international trade in goods (EUR billion)        | 1.9    | -1.1 | -0.4 | -1.8 | -4.3 | -7.7   | -0.6 | 0.3  | -1.3 | -4.0 | -5.6   |
| Consumer price index (%)                                     | 5.1    | 8.2  | 10.5 | 11.6 | 11.0 | 10.3   | 9.8  | 7.1  | 5.9  | 5.6  | 7.1    |
| Central bank base interest rate at the end of the period (%) | 2.4    | 4.4  | 6.4  | 7.4  | 8.0  | 8.0    | 8.0  | 7.70 | 7.40 | 7.10 | 7.10   |
| Unemployment rate (%)  | 4.1    | 3.7  | 3.7  | 3.7  | 3.7  | 3.7    | 3.7  | 3.6  | 3.6  | 3.5  | 3.6    |
| Change in the average gross monthly wage (%)                 | 8.7    | 20.7 | 16.5 | 15.4 | 13.5 | 16.5   | 4.2  | 9.8  | 12.0 | 14.2 | 10.1   |
| Current account balance as a percentage of GDP               | -3.1   |      |      |      |      | -7.3   |      |      |      |      | -5.5   |
| Net lending as a percentage of the GDP                       | -0.5   |      |      |      |      | -4.5   |      |      |      |      | -3.4   |
| ESA balance of public finances as a percentage of GDP        | -6.8   |      |      |      |      | -4.4   |      |      |      |      | -3.5   |
| Sovereign debt as a percentage of GDP                        | 76.6   |      |      |      |      | 74.5   |      |      |      |      | 72.2   |
| GDP-based external demand (volume index)                     | 5.6    | 5.6  | 3.2  | 1.8  | 1.4  | 3.0    | 2.0  | 2.4  | 2.7  | 2.9  | 2.5    |

Source: MNB, Hungarian Central Statistical Office, Századvég's calculation

2. TÁBLÁZAT: QUARTER-ON-QUARTER CHANGE OF OUR FORECAST

|  | 2022    |         |        | 2023    |         |        |
|--|---------|---------|--------|---------|---------|--------|
|  | 03.2022 | 06.2022 | change | 03.2022 | 06.2022 | change |
| Gross domestic product (volume index)                        | 3.9     | 5.4     | 1.4    | 4.7     | 4.5     | -0.3   |
| Household final consumption expenditure (volume index)       | 3.9     | 8.5     | 4.7    | 3.8     | 3.5     | -0.3   |
| Gross fixed capital formation (volume index)                 | 6.0     | 5.2     | -0.9   | 5.7     | 5.4     | -0.3   |
| Export volume index (based on national accounts)             | 4.6     | 8.0     | 3.4    | 5.9     | 7.8     | 1.9    |
| Import volume index (based on national accounts)             | 5.1     | 9.5     | 4.4    | 4.7     | 6.5     | 1.8    |
| Balance of international trade in goods (EUR billion)        | -1.5    | -7.7    | -6.2   | -0.3    | -5.6    | -5.3   |
| Consumer price index (%)                                     | 9.3     | 10.3    | 1.0    | 6.4     | 7.1     | 0.7    |
| Central bank base interest rate at the end of the period (%) | 6.80    | 8.00    | 1.2    | 5.00    | 7.10    | 2.1    |
| Unemployment rate (%)  | 3.8     | 3.7     | -0.1   | 3.7     | 3.6     | -0.1   |
| Change in the average gross monthly wage (%)                 | 13.8    | 16.5    | 2.8    | 11.2    | 10.1    | -1.1   |
| Current account balance as a percentage of GDP               | -4.8    | -7.3    | -2.5   | -3.2    | -5.5    | -2.3   |
| Net lending as a percentage of the GDP                       | -2.5    | -4.5    | -2.0   | -1.0    | -3.4    | -2.4   |
| Balance of public finances as a percentage of GDP            | -4.2    | -4.4    | -0.2   | -3.2    | -3.5    | -0.3   |
| Sovereign debt as a percentage of GDP                        | 72.5    | 74.5    | 2.0    | 67.7    | 72.2    | 4.5    |
| GDP-based external demand                                    | 3.3     | 3.0     | -0.3   | 2.4     | 2.5     | 0.1    |

Source: Századvég's calculation

<sup>1</sup> Date of preparation: 21 June 2022