MACRO MONITOR

April 2023

Századvég
Konjunktúrakutató Zrt.

Századvég 30

Table of Contents

DISCLAIMER

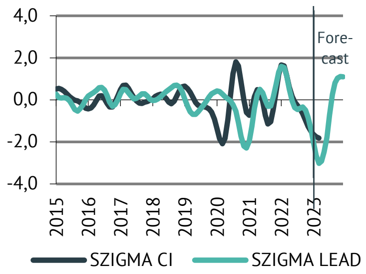
This publication is the intellectual product of Századvég Konjunktúrakutató Zrt. and has been produced for the information of its partners on the basis of data provided by external parties. Accordingly, the findings and forecasts in this publication are not intended to serve as professional or other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

1. Summary

UNTIL APRIL THIS YEAR, THE MNB DID NOT CHANGE THE BASE RATE OR THE EFFECTIVE INTEREST RATE

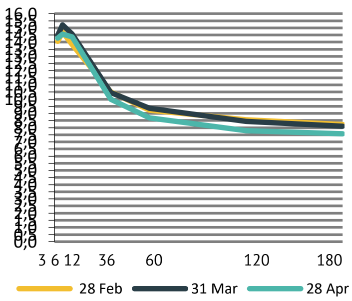
February 2023 saw the increase in agricultural producer prices continue to fall significantly. While the current 27.0% is still high, there is a sharp downward trend.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Forecast (20.03.2023)	2023
Change in the GDP (%)	0.6
Inflation (annual average, %)	17.5
EUR/HUF (annual average)	391.9

In April 2023, the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, reversed its historical trend of drifting away from the historical trend and started to converge towards it, based on data available until March 2023.

The other indicator, SZIGMA LEAD, is a short-term indicator for the future of the Hungarian economy. The Hungarian economy is still forecast to reach its trough of below-trend growth in April 2023, and from then on to turn around, approach and then exceed its historical trend. In summary, economic growth is expected to strengthen in the near term, but may come to a halt by the end of 2023.

Hungary has the highest effective interest rate (overnight (O/N) deposit rate: 18.0%) in the region, following the October move by the Hungarian central bank.

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

2. Overview of the economy

2.1 External environment

Food price rises are a problem across the euro area.

In March 2023, the disinflationary trends that had been underway for several months continued in both the European Union (8.3%) and the euro area (6.9%). For both, inflation rates peaked in October 2022, with average annualised inflation having fallen by 3.2 and 3.7 percentage points since then. It is striking that average inflation in the EU is increasingly outpacing that in the euro area, showing that the single European currency provides some protection against inflation for euro area members by eliminating exchange rate risk.

Apart from Hungary (25.2%), the inflation environment is also very high in other Central and Eastern European countries. In March, consumer prices rose by 16.5% in the Czech Republic, 15.2% in Poland and 14.8% in Slovakia compared to the same period last year. In December 2022, the Baltic countries had the highest inflation, but they are now also on a downward trend. In the month under review, the year-on-year increase in the harmonised index of consumer prices was 17.2% in Latvia, 15.6% in Estonia and 15.2% in Lithuania. In contrast, inflation has already fallen significantly in several countries: Prices in Belgium were 4.9% higher on average than a year earlier, in the Netherlands 4.5% higher and in Spain only 3.1% higher.

If we break down inflation into factors, we see that food price rises are a problem across the euro area. In March, processed food, alcohol and tobacco products cost on average 15.7% more and unprocessed food products cost on average 14.7% more than in March 2022. Last year, inflation was heavily influenced by very high energy prices, but this trend now appears to be reversing: falling global prices have also had a positive impact on the harmonised index of consumer prices, with the price of household energy 0.9% cheaper than a year earlier.

2.2 SZIGMA indicators

The growth rate of the Hungarian economy is below trend.

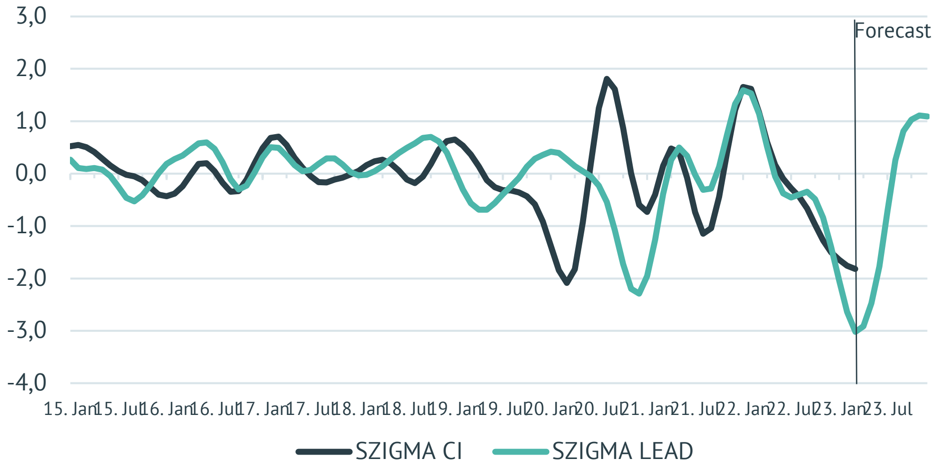
In April 2023, the SIGMA CI indicator, measured until March 2023, was still in negative territory, but its rate was decreasing. The indicator provides feedback on the current state of the Hungarian economy. In March 2023, the Hungarian economy grew at a rate below the historical trend. The current below-trend economic growth is part of a longer period that started in June 2022 and has gradually moved further away from the historical trend each month. But this drifting away has begun to stop and moderate. We expect the Hungarian economy to reach the trough of its below-trend growth in this month (March 2023) and to gradually move closer to trend thereafter. The above-mentioned months of below-trend economic growth may continue to be driven by the adverse international and domestic economic environment and its negative effects. Compared to previous periods, industry and construction have slowed. In February 2023, construction output on a fixed basis, seasonally and working-day adjusted, fell by 12.0% year on year and expanded by 0.2% month on month, but remained rather stagnant. In addition, the month-end stock of construction contracts on a fixed basis fell by 25.2% year on year and by 5.9% month on month. The number of new non-residential construction projects in February 2023 is more favourable compared to the previous month, rising from 230 to 342, an increase of 48.7%. At the same time, the number of new non-residential construction projects decreased by 5.0% year on year. Looking at the longer time series of recent years, the current level is a medium level that has corrected the decline of the previous two months, but only time will tell whether this rebound will continue.

For **industry**, both production volume and sales volume increased month on month, but decreased year on year. On a seasonally and working-day adjusted fixed basis, industrial output fell by 4.5% year on year, while the 0.3% month-on-month increase could be interpreted as a stagnation. On a seasonally and working-day adjusted fixed basis, industrial sales expanded by 2.9% month on month, mainly driven by domestic sales. Namely, month on month, seasonally and working-day adjusted fixed *domestic* industrial sales increased by 9.3%, while seasonally and working-day adjusted fixed *export* sales grew by only 1.7%. All (domestic, exports) also fell year on year. Year on year, seasonally and working-day adjusted fixed (total) industrial sales fell by 6.1%, of which seasonally and working-day adjusted fixed domestic industrial sales contracted by 12.0% and seasonally and working-day adjusted fixed export industrial sales contracted by 1.2%.

In April 2023, the March 2023 forecast of the SZIGMA LEAD indicator, which measures expectations of the Hungarian economy's future performance in the short term, continues to point to a trend reversal in the growth of the Hungarian economy. The Hungarian economy is still forecast to reach its trough of below-trend growth in April 2023 and from then on to reverse and start to converge towards its historical trend. According to the current forecast, the SZIGMA LEAD indicator will reach its trend value in August 2023, when the growth rate of the Hungarian economy will reach its historical trend value and thereafter will continue to grow above the historical trend until November 2023, but at the end of the 9-month horizon, in December 2023, this linear growth will stop and decline slightly. In summary, economic growth is expected to strengthen in the near term, but may come to a halt by the end of 2023. The outlook for industry is not very positive, as the February 2023 fixed *new industrial sales orders* fell both month on month (8.1%) and year on year (5.4%). The fall in both export and new domestic sales orders contributed to this. Year on year, fixed *new domestic industrial sales orders* contracted by 10.3% and *fixed new export industrial sales orders* by 4.5%. Month on month, exports fell more sharply. Fixed *new domestic industrial sales orders* shrank by 1.1% and *fixed new export industrial sales orders* by 8.9%. The March 2023 Ifo Business Climate Index, which measures the change in business sentiment in the German economy, continued to show positive economic sentiment. This is the fifth month of continuous improvement in this index, which rose by 2.2 index points compared to the previous month to stand at 93.2 index points. This brings it close to the pre-war index point of 98.6

(February 2022). Eurostat's March 2023 consumer confidence index showed a significant increase. It improved to -34.1 index points from -41.1 index points in the previous month. However, it is still far from the pre-war index point of -10.2 (February 2022) and the March 2022 index point of -22.0. As a result, the monthly index improved by 7.0 index points month on month and weakened by 12.1 index points year on year, which could improve further as consumer confidence recovers.

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



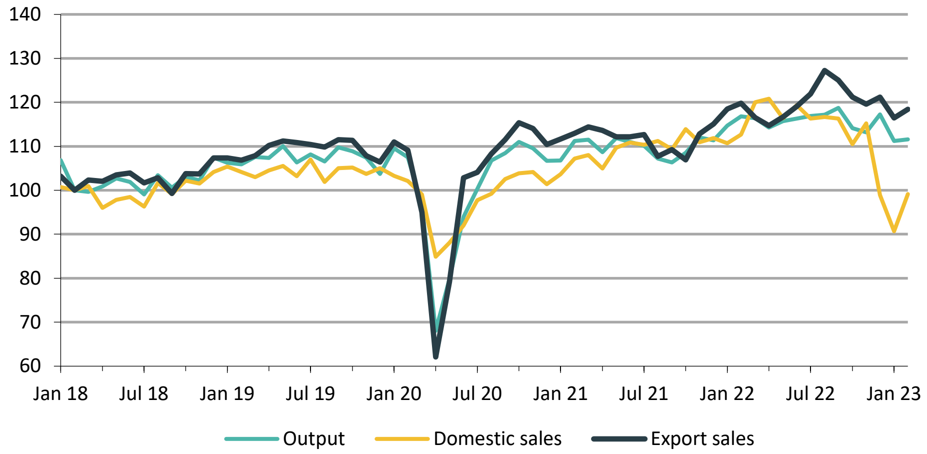
Source: Századvég

2.3 The real economy

Domestic industrial sales bounced back in February.

In February 2023, industrial production fell by 4.6% year on year in raw and working-day adjusted terms. Month on month, compared to January 2023, seasonally and working day adjusted industrial output increased by 0.3%. February 2023 (total) industrial sales fell by 6.5% year on year, driven by a 12.2% decline in domestic sales and a 2.0% decline in export sales.

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



Remark: Seasonally and calendar adjusted indices.
Source: Hungarian Central Statistical Office, Századvég

Returning to industrial production, in February 2023, manufacturing continued to account for the largest share (97.7%) of industrial production among the three industrial sectors, with output falling by 4.0% year on year. Of the remaining share, the energy sector (electricity, gas and steam supply and air conditioning) contributed 2.0% and mining and quarrying 0.3% to industrial production in February 2023. Volumes in all three sectors fell year on year. Output in manufacturing, which accounts for 97.7% of the total, fell by 4.0%, while energy, which accounts for 2.0%, declined by 18.3% and mining and quarrying, which accounts for 0.3%, fell by 26.2%. The largest contributor to manufacturing output in February 2023 (27.2%) was automotive manufacturing. Three sectors follow slightly behind: 11.4% for food products, 10.8% for electrical equipment manufacturing and 10.0% for computer, electronic and optical products manufacturing. Of these, automotive manufacturing (up 7.5%) and electrical equipment manufacturing (up 27.9%) increased their performance compared to the same period last year. At the same time, production in the other two sectors (food industry: 13.6% and computer, electronic and optical products: 8.9%) fell year on year.

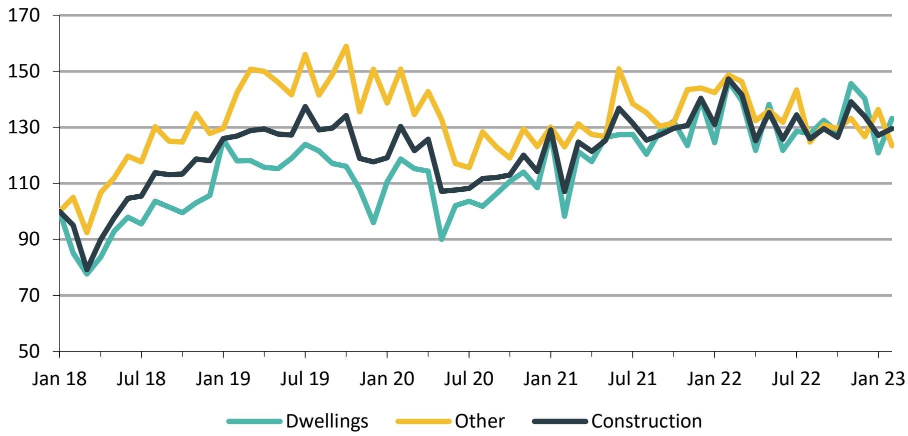
In February 2023, the total stock of sales orders in the manufacturing industries monitored by the HCSO increased by 2.1% year on year. This was driven by an 1.8% increase in export sales orders and a 9.3% increase in domestic sales orders. For exports, despite the high base, export sales orders increased year on year in four sectors: computer, electronic and optical products manufacturing (up 6.9%), electrical machinery and equipment manufacturing (up 6.4%), machinery and equipment (up 3.3%) and automotive manufacturing (up 4.3%). The low base also played a role in the 55.2% increase in pharmaceutical production. For domestic sales orders, despite the high year-on-year base, electrical equipment manufacturing increased its sales orders by 34.8%. However, compared to the same period of the previous year, the low base led to a strong increase in sales orders in the pharmaceuticals, metals and automotive sectors.

In February 2023, new sales orders in the key manufacturing industries fell by 5.4% year on year, driven by a 4.5% decline in new export sales and a 10.3% fall in new domestic sales orders. For new domestic sales orders, the stock of new sales orders fell in all sectors except automotive manufacturing, machinery and equipment manufacturing, the metals industry and pharmaceuticals. The largest declines were in computer, electronic and optical products (39.4%) and chemicals (32.5%). In terms of new export sales orders, only the paper products and electrical equipment manufacturing sectors saw an increase in new export sales orders, while the other sectors saw a decrease.

Construction continues to slow down.

Construction output fell by 11.8% year on year in February 2023, according to raw data. In construction, buildings fell by 8.8% and civil engineering works by 17.7%. Seasonally and working day adjusted construction output increased by 1.9% month on month (January 2023). At the end of February 2023, construction sales orders fell by 25.2% year on year, with a sharp decline in both main categories (buildings and civil engineering works). Year on year, the month-end stock of contracts for buildings fell by 13.6% and the month-end stock of contracts for civil engineering works fell by 33.1%. As for the future outlook, the stock of new contracts has fallen sharply in both main construction groups. In February 2023, the stock of new construction contracts fell by 44.4% year on year. Of these, the stock of new construction contracts for buildings contracted by 36.6% and the stock of new contracts for civil engineering works contracted by 49.7%.

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



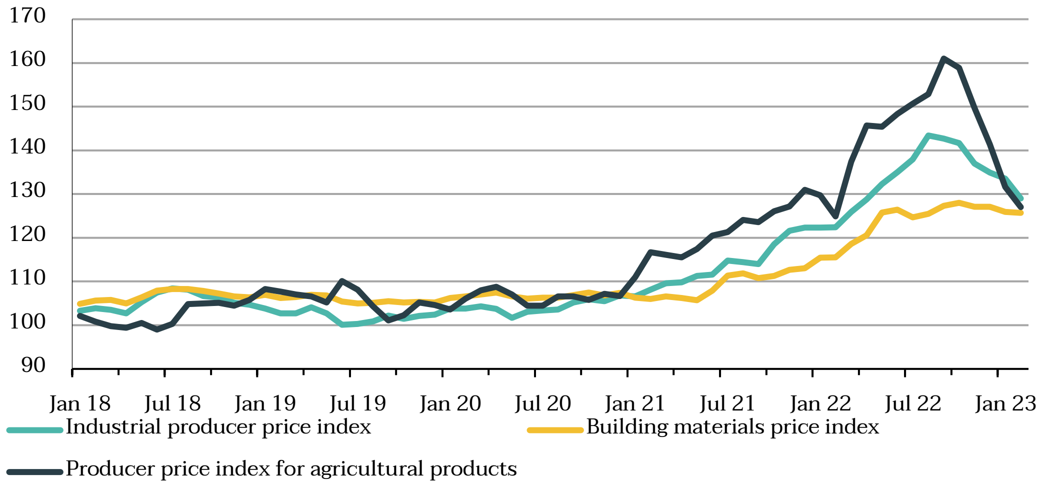
Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

The growth rate of agricultural producer prices has fallen significantly.

In February 2023, the increase in industrial and agricultural producer prices continued to slow down. In February 2023, the increase rate of industrial producer prices fell by 4.5 percentage points month on month to stand at 29.0% in February 2023. Industrial producer price growth peaked at 43.4% in August 2022, after which it began a slow decline. In **construction**, the growth rate of building material prices did not decline in February 2023, but rather stagnated. The growth rate remained around 25%. The sharp decline in the growth rate of agricultural producer prices continued in February 2023, which could have a positive impact on the growth rate of food prices. Year on year, agricultural producer prices increased by 27.0% in February 2023. Annual agricultural producer price growth peaked at 61.0% in September 2022. Thereafter, the growth rate of agricultural producer prices started to decline slowly, reaching 58.9% in October 2022, 49.7% in November 2022, 41.4% in December 2022 and 31.6% in January 2023. Although this can still be considered high, it shows a strong downward trend.

FIGURE 4: INDUSTRIAL PRODUCER PRICE INDEX, CONSTRUCTION INPUT PRICE INDEX, AGRICULTURAL PRODUCER PRICE INDEX (SAME PERIOD OF PREVIOUS YEAR = 100%)



Source: HUNGARIAN CENTRAL STATISTICAL OFFICE, Századvég,

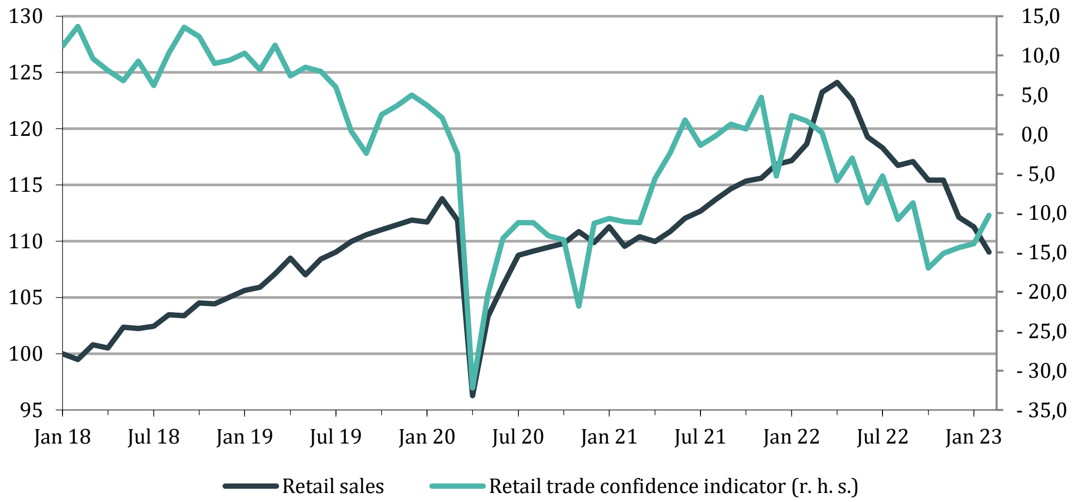
Volume of retail sales fell by 10.1%.

Both raw and calendar-adjusted data show that retail sales decreased by 10.1% year on year in February 2023. The significant decline in retail sales is due to the record high inflationary environment: people are increasingly forced to rationalise consumption even for basic goods, and their disposable income is also decreasing significantly, in addition to basic spending. The situation is further exacerbated by the removal of the price cap on fuels, with significantly higher fuel prices dampening demand, but price moderation could lead to an increase on a monthly basis in the coming months.

In February 2023, turnover in specialised and non-specialised food shops decreased by 8.6%, while turnover in non-food shops also decreased by 9.8%. In fuel retailing, sales fell significantly by 14.5% in February compared to the same month last year, driven by a number of factors. For one thing, the base effect is becoming increasingly pronounced due to the official pricing applied last year, and for another, market fuel prices are reducing demand, with some car owners looking for alternatives.

On a calendar-adjusted basis, food, beverages and tobacco declined by 5.3%, while foodstuffs fell by an even larger 9.6%. In non-food retail, the sales of books, newspapers and stationery fell by 12.5%, that of furniture and electric goods by 18.8% and that of parcel and internet services by 13.1% compared to the same period last year. In contrast, the biggest sales increase (7.6%) was in second-hand goods. In addition, sales in pharmaceuticals and medical products (3.7%) increased slightly. If we look at retail sales excluding the volume of fuel sales, we see that, on an annual basis, there was a 9.1% decline in the month.

FIGURE 5: RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2018 = 100%)



Remark: Seasonally and calendar adjusted indices.

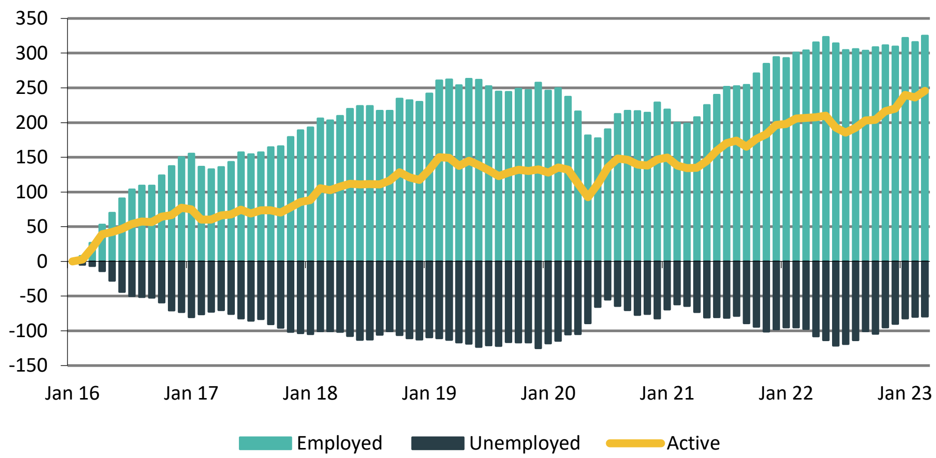
Source: HUNGARIAN CENTRAL STATISTICAL OFFICE, Eurostat, Századvég

Unemployment rate remains at 4.1% in March

In March 2023[1], the seasonally adjusted activity rate of the population aged 15-74 was 67.2% (4,912,000 persons), which means a labour market growth of 39,000 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees was around 4,713,000, an increase of 15,500 and 21,200 respectively compared to the previous quarter and the same period of the previous year. The slight increase in unemployment observed in previous months has started to slow down, with 199,000 people unemployed, an increase of 10,300 compared to the previous quarter and 17,800 compared to the previous year.

In February, the seasonally adjusted number of employees increased by 2,000 from January, while it increased by 19,100 compared to the same period of the previous year. The most significant increase in the number of employees was in the competitive sector, with 42,400 more working in enterprises having at least 5 employees compared to 2022, up by 9,600 compared to January. The number of employees in the non-profit sector and the public sector also stagnated during the month.

FIGURE 6: CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)



Remark: Seasonally and calendar-adjusted indices

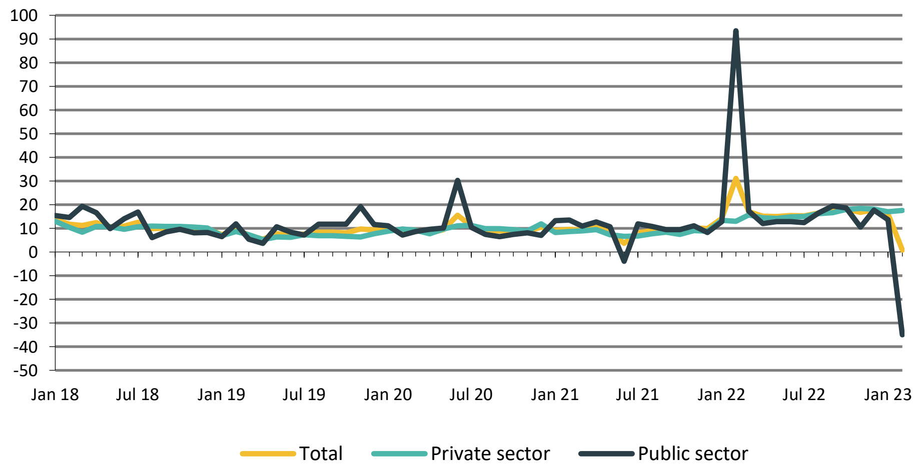
Source: Hungarian Central Statistical Office, Századvég

[1] Three-month moving average

Real wages continued to fall in February

In February, the average gross monthly wage in the national economy was HUF 531,200, up 0.8% compared to the same period last year. The change in the average wage was significantly affected by the duty allowance equal to six months' remuneration, the so-called "gun money", paid to professional defence and law enforcement staff in February 2022. Net of this effect, the increase in the average gross monthly wage would be 14.8 percentage points higher. The highest average gross monthly wage was recorded in the competitive sector, at HUF 542,300. The average net monthly wage including benefits was HUF 366,400, an annual increase of 1.2%. The average regular gross monthly wage, excluding bonuses, rewards and one-off benefits, increased by 17.3% in January 2023 compared to a year earlier, to an estimated HUF 505,400. Real wages fell by 19.6%, reflecting accelerating inflation, which was 25.4% in February. The so-called gun money explains 11.8 percentage points of the fall in real wages. The median gross monthly wage was HUF 423,400.

FIGURE 7: CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)



Remark: Seasonally and calendar-adjusted indices
Source: Hungarian Central Statistical Office, Századvég

2.4 External balance

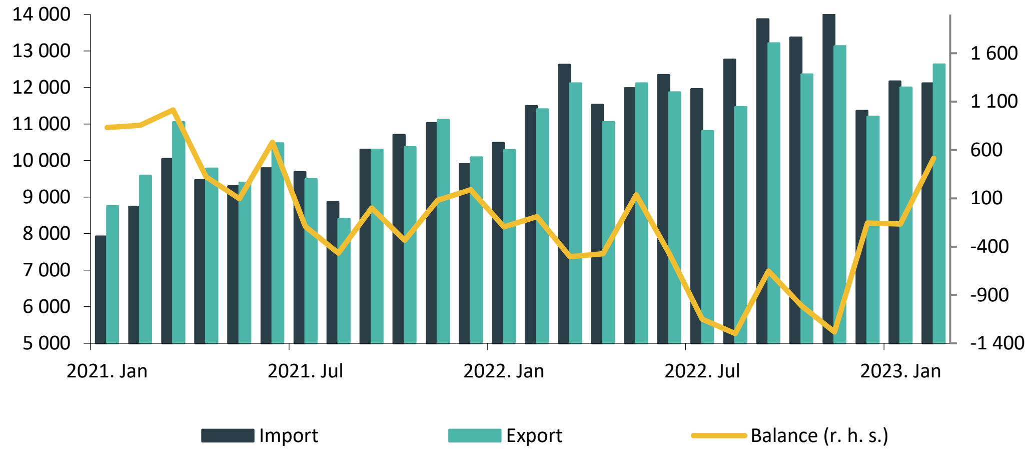
In January, the volume of exports of goods increased by 9.0% and imports by 11.0% year on year. This brought the foreign trade deficit to EUR 413 million, EUR 170 million below the balance in the previous year.

In January, the import volume of food products, beverages and tobacco increased by 17.0%, and their export volume decreased by 7.4% year on year. As for energy carriers, imports increased by 12.0% and exports decreased by 4.9%. As for processed products, imports decreased by 0.3%, and exports by 3.3% year on year. Both exports and imports of machinery and transport equipment increased by 21.0%.

The trade balance improved.

In February 2023, the EUR value of exports was 10.0% higher and the EUR value of imports was 3.8% higher than a year earlier. The foreign trade surplus in goods thus amounted to EUR 513 million.

FIGURE 8: TRADE BALANCE (EUR MILLION)



Remark: The February 2023 figures are from the first estimate.

Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

Fiscal revenues increased by 19% and expenditure by 12% in the first three months of the year.

By the end of March 2023, the central budgetary subsystem had accumulated a deficit of HUF 2,089.7 billion, which is 61.5% of the annual deficit target. This deficit consisted of the HUF 2,019.0 billion deficit of the central budget, the HUF 89.6 billion deficit of social security funds and the HUF 18.9 billion surplus of extra-budgetary funds.

Central government revenue in the first three months of the year was 19.0% higher than in the same period of the previous year.

Payments from business organisations were 35.2% higher than in the same period of 2022. Within payments by business organisations, corporate tax, the largest revenue generator, was 20.4% (HUF 29.2 billion) higher than in the first three months of the previous year. Mining royalties and energy sector payments increased significantly by HUF 46.2 billion and HUF 91.2 billion respectively compared to the same period last year, with the latter two items being driven by the temporary introduction of special taxes in 2022.

Revenues from consumption-related taxes were 9.2% (HUF 172.1 billion) higher than a year earlier. VAT receipts were HUF 107.2 billion (7.2%) higher than at the end of March in the previous year. Excise tax revenue was HUF 35.3 billion (13.2%) more than in the first three months of 2022. The most significant increase (HUF 31.7 billion) was observed for tobacco products, driven by an increase in turnover due to the stocking effect of the January 2023 tax rate increase.

Personal income tax revenue amounted to HUF 940.7 billion in the first three months of the year, up HUF 768.1 billion compared to January-March 2022. The rise was partly due to wage increases and partly to a low base due to last year's family tax rebate. Receipts from social contribution tax and social insurance contributions increased by 10.3% (HUF 156.3 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes up to March was HUF 536.5 billion, HUF 336.4 billion more than in 2022 and representing an increase of more than two and a half times. In contrast, expenditure on EU programmes amounted to HUF 852.6 billion, HUF 338.6 billion less than the previous year.

Central government expenditure in the first three months of the year was 12.0% higher than in the same period of the previous year.

Among significant expenditure items, expenditure on specific and normative subsidies, housing subsidies, expenditure on public property and interest expenditure were higher than a year earlier.

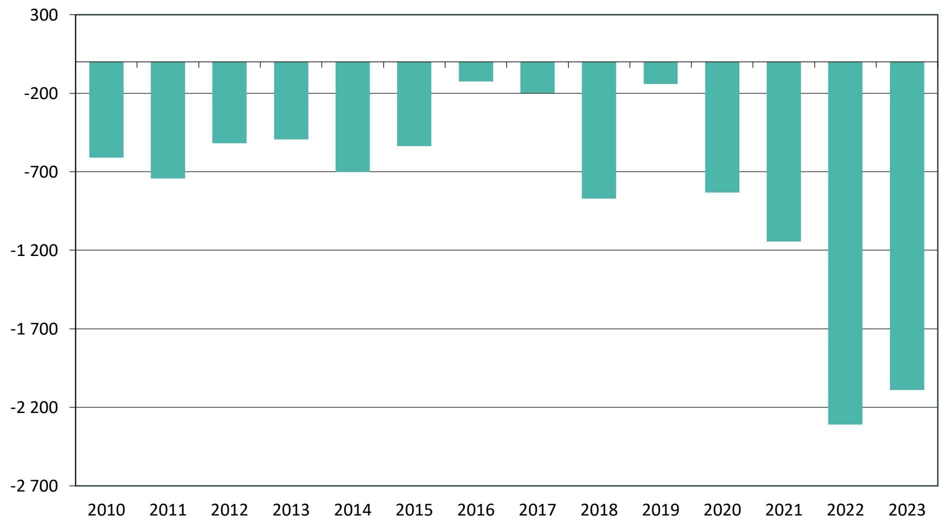
The amount spent on specific and normative subsidies was HUF 693 billion higher than at the end of March last year. The most significant item of the increase was HUF 679.1 billion in expenditure to maintain discount household utility prices.

Expenditure on state property increased by HUF 191.3 billion compared to the same period last year. Expenditure on housing subsidies was HUF 94.6 billion higher than in the same period last year, due to the carry-over effect of the end of the home renovation subsidy at the end of last year.

Compared to the first three months of the previous year, expenditure on budgetary and chapter-administered professional appropriations decreased significantly, by HUF 634.7 billion.

In the January-March 2023 period, expenditure on retirement benefits amounted to HUF 1,709 billion, up 27.5% compared to the same period in 2022. During the same period, the Health Insurance Fund spent HUF 983.5 billion, an increase of 7.2% 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 4.9%.

FIGURE 9: CENTRAL SUBSYSTEM BALANCE, 2010–2023 (JANUARY–MARCH RESULTS, HUF BILLION)



Source: Ministry of Finance, Századvég

2.6 Monetary developments

Consumer prices increased by 25.2% on average in March.

In March 2023, consumer prices increased by 25.2% on average—compared to the same period of the previous year. Over the past year, the highest increases were for food (42.6%) and household energy (43.1%), the latter due to changes in household utility discounts. Consumer prices rose by 0.8% on average over a month. The seasonally adjusted core inflation rate showed a year-on-year increase of 25.7%.

The more significant contributors to the 42.6% average increase in food prices were the 74.0% increase in egg prices, the 67.0% increase in bread prices and the 60.6% increase in cheese prices. The average inflation of 66.2% for pastries, 40.6% for poultry and 41.9% for fresh vegetables also outpaced average food inflation for the month. In contrast, pork prices rose at a below-average rate (26.8%), while edible oil (3.9%) inflation was also below average. The main drivers of the 19.7% average inflation in spirits and tobacco were primarily the 39.1% increase in beer prices.

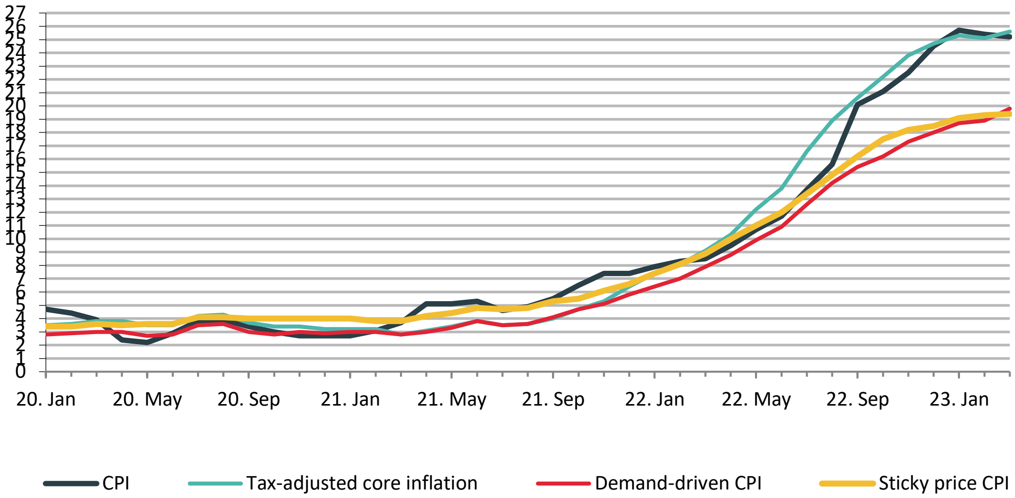
The 20.7% increase in new car prices played a particularly important role in the 11.2% average increase in the prices of consumer durables. The prices of heating and cooking appliances also increased at an above-average rate, by 19.6%, while kitchen and other furniture prices rose by 18.9% compared to the same period last year. Washing machines and dishwashers also saw above average price increases of 17.1% on an annual basis in March. Consumer durables inflation is moderated by a 6.6% increase in the prices of computers, cameras and telephones, and a 0.6% decrease in the prices of televisions.

The average increase in household energy prices was 43.1% in March as compared to the same period of the previous year. Within household energy, the price of piped gas increased by 62.8%, electricity by 27.6% and cylinder gas by 51.6% over the past year. Despite the price boom on the world market, the discount household utility prices remained stable until July. From August, they remained the same up to average consumption. Above average consumption, however, consumers have to pay a higher price, which is calculated by the HUNGARIAN CENTRAL STATISTICAL OFFICE in the billing month. The increase in energy prices will result in an inflation surplus of around 2.5-3% each month, a trend that is expected to continue until September 2023, when the base effect will take effect. On the other hand, the mild winter and energy-saving measures have led to a fourth month of monthly (month-on-month) falls in household energy prices.

In March, prices of services rose by an average of 13.0%, with vehicle repair and maintenance up 24.4%, body care services up 19.5% and taxi up 35.7%. Prices for sports event and museum tickets also increased significantly, by 27.7%. The average price increase of services was moderated by, among other things, no change in the prices of sanitation, water and sewerage (100.0%) and a 6.4% increase in the price of local public transport.

Compared with the previous month, food prices rose by an average of 1.5%, with the most significant increase being for seasonal foodstuffs (6.1%). The price of services rose by 1.9% on a monthly basis, while the price of household energy fell by 3.8% compared with the previous month, thanks to the mild winter.

FIGURE 10: THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)



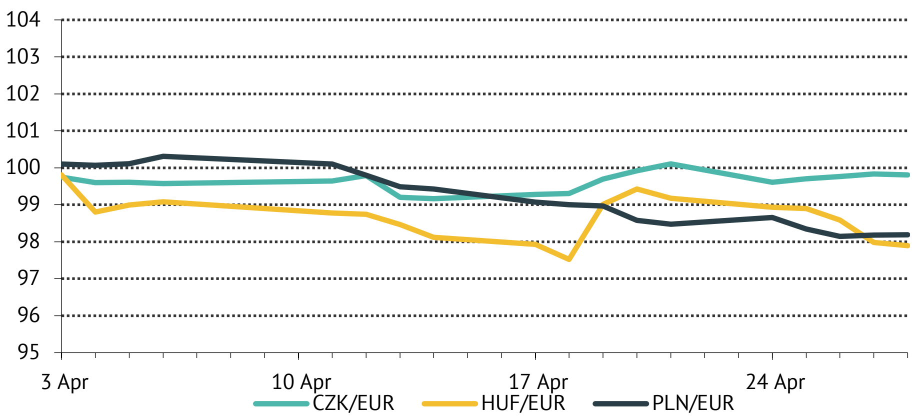
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, in March, the seasonally adjusted core inflation rate was 25.7%, the core inflation rate net of indirect taxes was 25.6%, and the sticky price inflation rate was 19.4%. Core inflation excluding processed food was 19.8% in the third month of the year.

Both the Czech koruna and the Polish zloty strengthened against the euro.

Regional currency exchange rates strengthened against the euro in April. The foreign currency exchange rates for both the Czech koruna and the Polish zloty have strengthened against the Euro, by 0.83% and 2.0%, respectively. Government bond yields also fell: the Czech 10-year government bond yield was 10 basis points lower at 4.52%, while the Polish 10-year yield closed 15 basis points lower at 5.91%.

FIGURE 11: CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)



Source: Refinitiv, Századvég

The Forint strengthened against the Euro.

Hungarian money and foreign exchange market indicators have recently shown a very positive picture. The 10-year government bond yield closed at 7.93%, dropping 75 basis points. The HUF strengthened by 1.9% against the euro, by 0.87% against the Swiss franc and by 3.25% against the US dollar. This means that at the end of April 2023, one euro was worth 370 forints, one US dollar was worth 340 Forints and one Swiss franc was worth 379 forints. Sovereign debt held by foreigners increased by HUF 755.8 billion to HUF 7,434 billion in the past month.

At its April meeting, the central bank did not change its effective interest rate.

At its April meeting, the Monetary Council of the central bank did not change the base rate (13%) or the policy rate. The Monetary Council left the overnight deposit interest rate at 12.5%, but cut the lending rate by 450 basis points to 20.5%. The central bank's effective interest rate, the interest rate on overnight deposits, remained at 18.0%. The MNB has increased the effective interest rate by 1,740 basis points since the start of the rate hike cycle. The asymmetric interest rate corridor defines the limits of the overnight interbank market interest rate and the central bank overnight deposit interest rate.

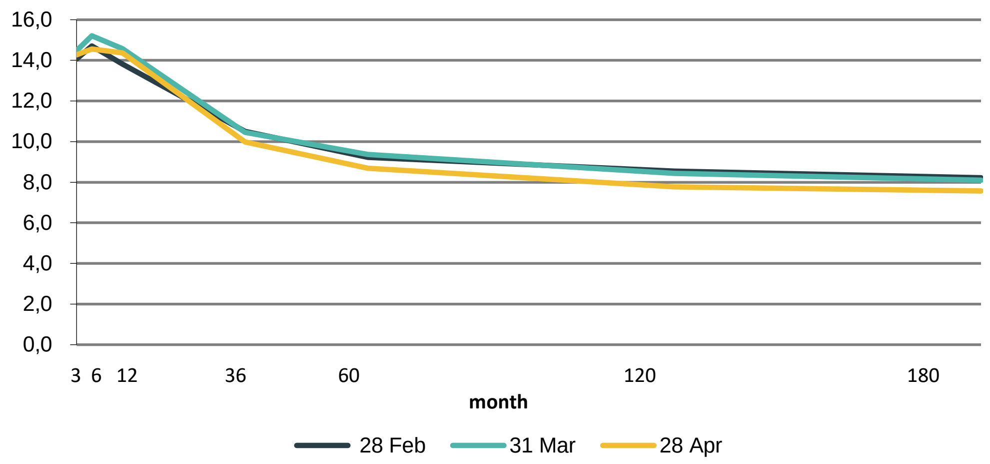
In the government bond market, yields for shorter maturities varied between -65 basis points and -20 basis points on the secondary yield curve in April. This means that the 3-month yield was 14.27%, the 6-month yield was 14.56% and the 1-year yield was 14.37% on 28 April. The 3-year yield fell by 47 basis points to 9.98%. Yields are down 67 basis points over the 5-year horizon, 66 basis points over the 10-year horizon and 53 basis points over the 15-year horizon compared to the previous month. These three yields changed, therefore, to 8.69%, 7.78%, and 7.57%, respectively.

On 31 March 2023, the total value of "MÁP Plusz" government securities held by retail investors was HUF 1,586.1 billion after a HUF 848.4 billion decrease from the HUF 2,434.5 billion level at the end of December 2022. The main reason for this is that in a high inflation environment, households prefer to buy the inflation-tracking Premium Hungarian Government Bond (PMÁP), whose cumulative value has risen to HUF 5,319.7 billion, an increase of HUF 998.0 billion compared to the end of 2022. For PMÁP, the GDMA currently maintains the interest rate premium on the 7-year government bond at 1.5 percentage points, while the interest rate premium on the 4-year government bond at 0.75 percentage points. In an environment of significantly higher interest rates, the total stock of government securities held by retail investors was HUF 8,819.4 billion, or HUF 265.7 billion higher at the end of March 2023, compared with HUF 8619.4 billion at the end of 2022.

The share of foreign currency debt in the sovereign debt changed to 25.7% in March (i.e. increased by 0.2 percentage point), which is in the range (maximum 30%) specified in the financing plan for 2023 of GDMA. In the first three months of the year, average foreign currency debt averaged 25.96%.

At the end of April, 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 12: CHANGES IN THE HUF YIELD CURVE (%)

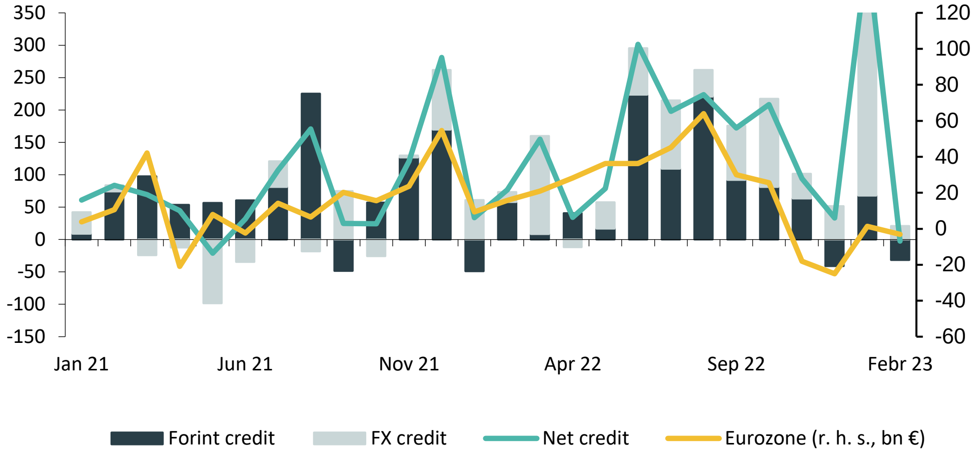


Source: GDMA, Századvég

Corporate credits in foreign currencies have increased.

Seasonally adjusted data show that the net repayment of HUF loans in the business sector was HUF 31.3 billion in February 2023. The net borrowing of foreign currency loans was HUF 20.8 billion in December; 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 -2.5 billion in February. Corporate loan repayment in the euro area was EUR 1.7 billion in February 2023.

FIGURE 13: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Századvég's forecast[2]

TABLE 1:Q1 2023 FORECAST

	2022	2023	2024
Gross domestic product (volume index)	4.6	0.6	3.4
Internal market demand (volume index)	4.8	-1.4	1.6
Export volume index (based on national accounts)	10.3	1.8	4.5
Import volume index (based on national accounts)	9.5	-1.0	2.6
Balance of international trade in goods (EUR billion)	-8.5	-6.5	-5.5
Consumer price index (%)	14.4	17.5	4.5
Central bank base interest rate at the end of the period (%)	13.0	10.7	7.8
Unemployment rate (%)	3.6	3.9	3.6
Current account balance as a percentage of GDP	-7.5	-4.0	-2.2
Net lending as a percentage of the GDP	-4.8	-1.7	0.0
ESA balance of public finances as a percentage of GDP	-6.1	-3.9	-2.5
Sovereign debt as a percentage of GDP	73.5	69.7	67.6

Source: MNB, HUNGARIAN CENTRAL STATISTICAL OFFICE, Századvég's calculation

TABLE 2:QUARTER-ON-QUARTER CHANGE OF OUR FORECAST

	2023			2024		
	12.2022	03.2023	change	12.2022	03.2023	change
Gross domestic product (volume index)	1.9	0.6	-1.3	4.9	3.4	-1.5
Internal market demand (volume index)	0.0	-1.4	-1.4	4.4	1.6	-2.8
Export volume index (based on national accounts)	0.8	1.8	1.0	7.4	4.5	-2.9
Import volume index (based on national accounts)	-0.9	-1.0	-0.1	6.3	2.6	-3.7
Balance of international trade in goods (EUR billion)	-6.8	-6.5	0.3	-5.5	-5.5	0.0
Consumer price index (%)	19.3	17.5	-1.8	9.6	4.5	-5.1
Central bank base interest rate at the end of the period (%)	13.0	10.7	-2.3	12.1	7.8	-4.3
Unemployment rate (%)	4.2	3.9	-0.3	4.4	3.6	-0.8
Current account balance as a percentage of GDP	-4.1	-4.0	0.1	-3.1	-2.2	0.9
Net lending as a percentage of the GDP	-1.9	-1.7	0.2	-1.1	0.0	1.1
Balance of public finances as a percentage of GDP	-5.0	-3.9	1.1	-2.6	-2.5	0.1
Sovereign debt as a percentage of GDP	73.0	69.7	-3.3	69.5	67.6	-1.9

Source: Századvég's calculation

[2] Date of preparation: 20 March 2023