MACRO MONITOR

July 2023

Századvég
Konjunktúrakutató Zrt.

Századvég 30

Table of Contents

DISCLAIMER

1. Summary

IN JULY, THE MNB LEFT THE BASE RATE UNCHANGED, BUT AGAIN CUT THE EFFECTIVE INTEREST RATE BY 100 BASIS POINTS.

At its meeting in July, the Monetary Council of the central bank did not change the base rate (13%) but continued to cut the policy rate. The central bank cut its effective rate, the overnight deposit facility rate, by 100 basis points to 15.0%.

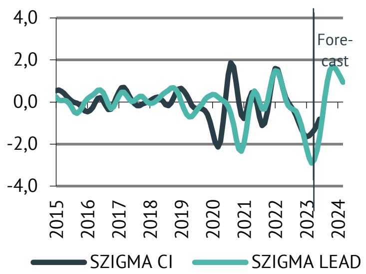
Raw data show that retail sales decreased by 12.7%, while calendar-adjusted data show that it decreased by 12.3% in May 2023, compared to the same period of the previous year. Within this, sales decreased by 7.3% in specialised and non-specialised food shops and by 10.9% in non-food shops. The turnover volume of petrol stations fell by 25.9%, exceeding the other main groups.

In July 2023, the value of the SZIGMA CI indicator, which provides feedback on the current state of the Hungarian economy, measured until June 2023, shows that the economic growth rate is improving, as the indicator has been only slightly in negative territory and is approaching zero, the historical trend.

The other indicator, SZIGMA LEAD, is a short-term indicator for the future of the Hungarian economy. The indicator continues to show a double turnaround, firstly indicating a positive stronger economic growth. Second, it indicates a stagnation and decline in the growth rate.

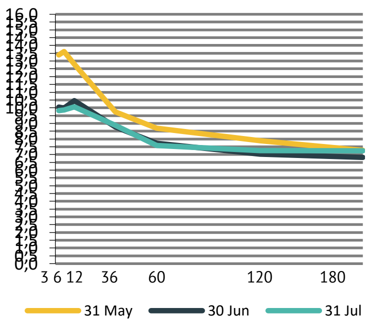
In an environment of higher interest rates and higher inflation, the trend towards a preference for premium Hungarian government bonds with above-inflation yields over those with fixed yields continued.

SIGMA indicators



Source: Századvég

Forint yield curve (%)



Source: Refinitiv

Our forecast (22.06.2023)	2023
Change in the GDP (%)	1.1
Inflation (annual average, %)	18.6
EUR/HUF (annual average)	395.0

2. Overview of the economy

2.1 External environment

Disinflation continued in the European Union in June.

In June 2023, the disinflationary trends that had been underway for several months continued in both the European Union (6.4%) and the euro area (5.5%). Compared to January 2023, the inflation rate has fallen by 3.6 and 3.1 percentage points in the EU and the euro area, respectively.

Apart from Hungary (20.1%), the inflation environment is also high in the other Central and Eastern European countries. In June, consumer prices rose by 11.2% in the Czech Republic, 11.0% in Poland and 11.3% in Slovakia compared to the same period last year. In contrast, inflation has already fallen significantly in several countries: In Belgium and Spain, goods cost 1.6% more on average than a year earlier, in Greece 2.6% more and in Cyprus only 2.8% more.

If we break down the euro area inflation into factors, we see that food price increases are also a problem here. In May, processed foods, alcoholic beverages and tobacco were on average 12.4% more expensive than a year earlier. In the recent period, inflation was heavily influenced by very high energy prices, but this trend has changed significantly: falling global prices have also had a positive impact on the harmonised index of consumer prices, with the price of household energy 5.6% cheaper than a year earlier. In services, not only in Hungary, but also in the euro area, trends are in the opposite direction to the other main groups: on an annual basis, the decline has not started, and in fact, compared to the previous month, there was an increase of 0.4 percentage points (on an annual basis).

During the month, the central banks in the region left their base rates unchanged, while the European Central Bank continued its monetary tightening with a 25 basis point hike.

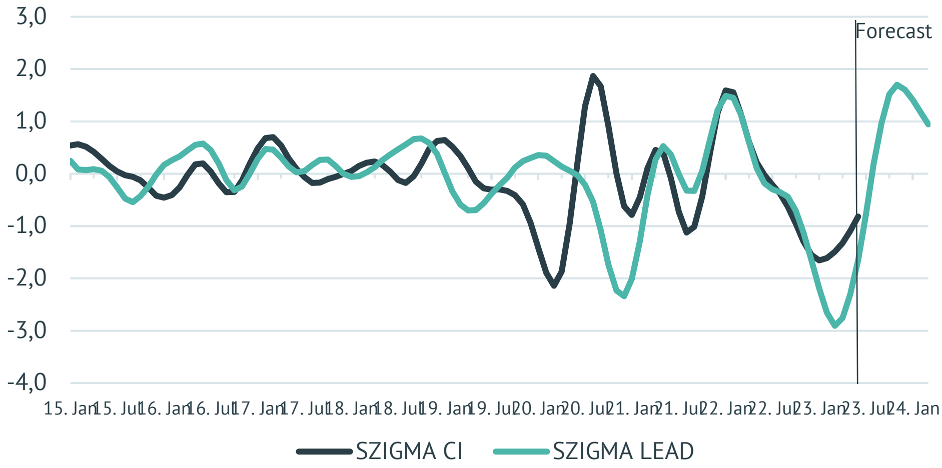
2.2 Our SZIGMA indicators

Hungarian economic growth rate is still below trend, but an improvement is expected.

In July 2023, the value of the SZIGMA CI indicator, which reflects the current state of the Hungarian economy, was only slightly in negative territory until June 2023, and was increasingly approaching zero, i.e. the historical trend. This means that, although the growth rate of the Hungarian economy was below the historical trend rate in June 2023, it has been increasingly approaching and is expected to reach the historical trend rate in the near future. 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 until January 2023, then it turned around and started to approach the trend level and now it is almost at the historical trend level. The growth rate of the Hungarian economy is strongly influenced by the international and the domestic economic environment. Inflation, which is on a downward path but still high, and the high interest rate environment continue to have an impact, as indicated by current industrial and construction data. In May 2023, seasonally and working-day adjusted **construction** output on a fixed basis continued to fall. This declining performance is reflected, for one thing, in the fixed-base volume index of month-end stock of construction contracts, which declined both month on month (4.1%) and year on year (30.2%). However, the number of new non-residential building projects in May 2023 is slightly encouraging, as it increased both month on month (26.9%) and year on year (7.8%). May 2023 **industry** indicators show a mixed picture. The volume of industrial output on a seasonally and working-day adjusted fixed basis and the volume of total sales (domestic and exports combined) strengthened on a monthly basis, but still declined on an annual basis. Adjusted industrial sales, both on a monthly and annual basis, were pulled up only by exports, while domestic industrial sales continued to fall on a monthly and annual basis. In terms of new industrial sales orders, both export sales (24.7%) and domestic sales (17.0%) grew on a monthly basis. However, on an annual basis, export sales could strengthen (1.0%), while the high base caused domestic sales to fall by 9.4%.

In July 2023, our short-term leading indicator, SZIGMA LEAD, continues to show a double shift in the growth rate of the Hungarian economy. On the one hand, the growth rate of the Hungarian economy could reach its historical trend rate by August 2023, followed by above-trend growth. On the other hand, this favourable, strong growth rate is expected to come to a halt and start to decline by the end of this year. Importantly, growth is still expected to remain above the historical trend, but at a lower rate. **In summary,** our forecast continues to show a strengthening of economic growth, with the growth rate expected to come to a halt and slow down at the end of this year. In terms of the fixed base industrial indicators that underpin our forecast, the ***industrial production and sales*** *is expected to strengthen, supported primarily by exports***.** This is because, as indicated above, new industrial export sales orders have increased both on a monthly and annual basis. It grew by 24.7% on a monthly basis and managed to gain 1.0% on an annual basis despite the high base. Domestic industrial sales are expected to strengthen slowly, as the volume of new domestic industrial sales orders strengthened by 17.0% month on month. Although the volume of new domestic industrial sales orders fell on an annual basis, this was due to the high (base) effect of the previous year. The June 2023 Ifo Business Climate Index, **which measures the change in business sentiment in the German economy**, continued to deteriorate in June, falling from 91.5 index points to 88.6 index points. This is the second monthly decline after six months of improvement. German businesses are more pessimistic about their future prospects. **Eurostat**'s consumer confidence index improved again in June 2023, following a decline the month before. The EU consumer confidence index improved both on a monthly (by 4.0 index points) and annual (by 2.2 index points) basis. Thus, in June 2023, it stood at -32.5 index points. To improve the indicator, consumer confidence needs to be restored and strengthened.

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



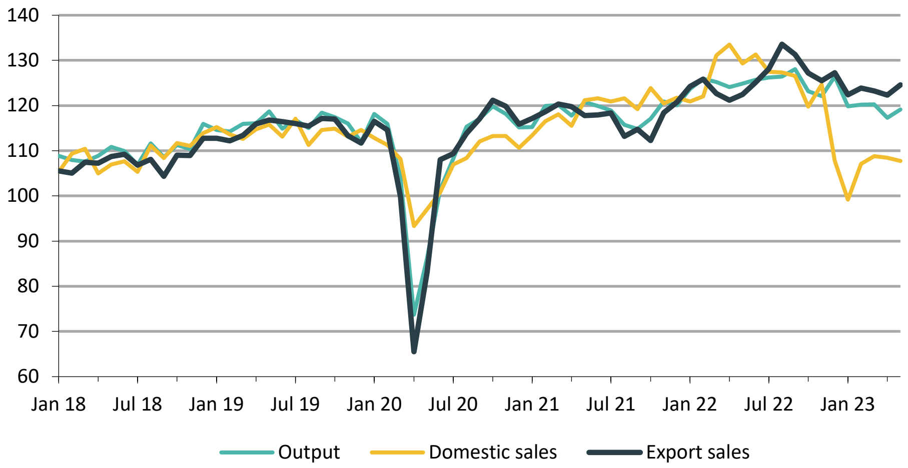
Source: Századvég

2.3 The real economy

Industrial production expanded on a monthly

Compared with the same period of the previous year, industrial production fell by 6.9% year on year according to raw data and by 4.6% according to working-day adjusted data in May 2023. However, on a monthly basis, the volume of seasonally and working-day adjusted industrial production increased by 1.6%. In May 2023, total industrial sales contracted by 7.8% year on year, of which export sales increased by 0.3%, while domestic sales fell by 18.4%.

FIGURE 2: CHANGES IN INDUSTRIAL OUTPUT AND SALES (2015 MONTHLY AVERAGE = 100%)



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

Returning to industrial production, the largest share (weight) of industrial production in May 2023 belonged to the manufacturing sector, which accounted for 96% of industrial production in that month. Of the other two sectors, the energy sector (electricity, gas and steam supply and air conditioning) contributed 3.6% and mining and quarrying 0.4% to industrial production in April 2023. In all three sectors, industrial production volumes fell on an annual basis. Output in manufacturing, which accounts for 96.0% of the total, fell by 5.0%, while energy, which accounts for 3.6%, declined by 31.6% and mining and quarrying, which accounts for 0.4%, fell by 32.6%. Within manufacturing, output fell in all but four sectors (electrical equipment manufacturing, automotive manufacturing, pharmaceutical production and other manufacturing). The largest contributor to manufacturing output in May 2023 (26.4%) continued to be automotive manufacturing, which increased its production volume by 10.5% year on year. Food manufacturing, the second largest sector (11.9%), significantly behind automotive manufacturing, saw its annual output fall by 16.7%. At the same time, electrical equipment manufacturing, which accounts for the third largest share (11.8%), increased its production volume by 13.4% year on year. The pharmaceuticals sector, which accounts for a smaller share (2.6%) of manufacturing output, increased its output by 6.7%

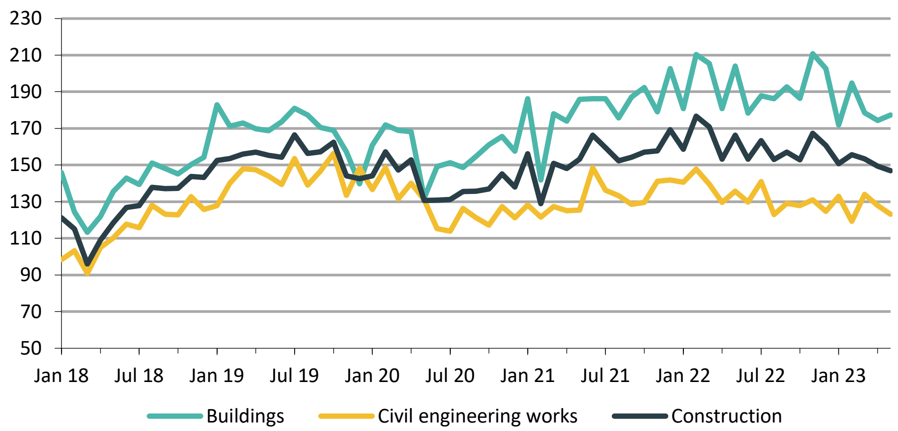
In May 2023, total new sales orders of the manufacturing industries monitored by the HCSO increased by 8.5% year on year at comparable prices. This was driven by a 8.5% increase in export sales orders and an 8.2% increase in domestic sales orders. For exports, the stock of export sales orders increased in most of the sectors observed. Three of these sectors increased export sales orders on a high base: computer, electronic and optical products (18.1%), automotive manufacturing (3.0%) and machinery and equipment manufacturing (2.0%). In addition, in the chemicals and chemical products manufacturing sector, export sales orders expanded by 20.8% against a weaker base. In the pharmaceuticals sector, export sales orders continued to expand, tripling from 103.7% in May last year to 335.5% on an annual basis in May 2023. The situation is not so favourable for domestic sales orders. The pharmaceutical sector also grew significantly in terms of domestic sales orders. On an annual basis, domestic sales orders increased from 161.8% in May 2022 to 314.9% in May 2023. Electrical equipment manufacturing also grew its domestic sales orders by 43.8% year on year, on a high base. Thanks to the low base, domestic sales orders in the metals industry grew by 22.3%. In the other sectors, the stock of sales orders fell.

In May 2023, new sales orders in key manufacturing sectors fell by 0.5% year on year at comparable prices. This was mainly driven by a decline in new domestic sales orders (9.3%). New export sales orders grew by 1.1% year on year, a good performance on the back of an outstanding base of 128.0% in May last year. Three sectors (paper and paper products, electrical equipment manufacturing and pharmaceuticals) contributed to the increase in the volume of new export sales orders. The first two of these saw new export sales orders expand on a high base. In terms of new domestic sales orders, it increased in four sectors, with a 9.3% year on year decline. These are: automotive manufacturing (up 7.4%), pharmaceuticals manufacturing (up 13.1%), computer, electronic and optical products manufacturing (up 17.0%), and electricity equipment manufacturing (up 14.3%).

The volume of construction output continues to slow

In May 2023, the annual volume of construction output fell by 12.0% in terms of raw data. The decline in construction output was driven by a fall in both main categories of construction (buildings and civil engineering works). Buildings fell by 13.2% and civil engineering works by 10.0%. On a monthly basis, the decline was not as significant, as seasonally and working day adjusted construction output decreased by 1.7% month on month. The situation is not favourable for the stock of contracts either, as in May 2023, both end-of-month stock of contracts and new contracts signed in the month under review decreased on an annual basis (by 30.2% and 36.9%, respectively). Compared to the same period last year, the stock of construction contracts at the end of May 2023 decreased by 30.2%, of which buildings decreased by 13.7% and civil engineering works by 40.8%.

FIGURE 3: CHANGES IN THE CONSTRUCTION INDUSTRY (MONTHLY AVERAGE FOR THE YEAR 2015 = 100%)

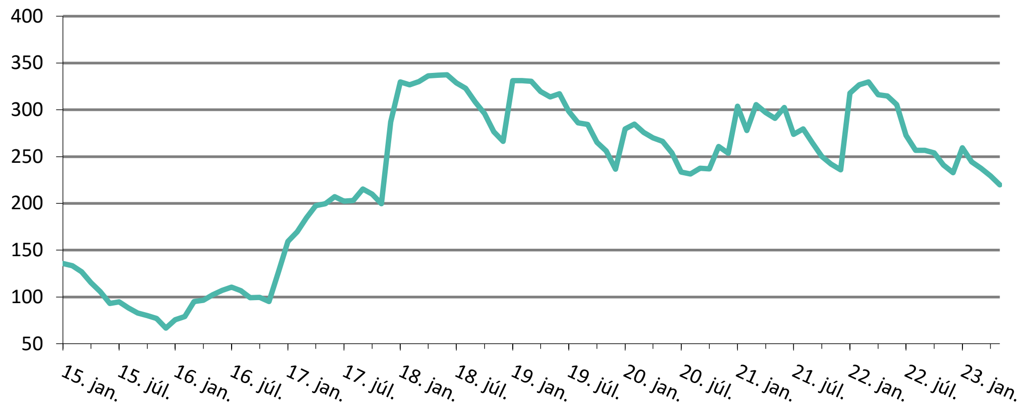


Remark: Seasonally and calendar adjusted indices.

Source: Hungarian Central Statistical Office, Századvég

Future prospects have not improved either, with the stock of new construction contracts signed in the month under review falling by 36.9% year on year, including a contraction of 48.5% for buildings and 11.9% for civil engineering works. Looking over a longer time horizon and on a fixed basis, the volume of construction contracts at the end of the month under review is currently still higher than in 2017, but is already approaching this lower level. Therefore, if no change occurs, the volume of construction output will continue to fall.

FIGURE 4: CHANGES IN MONTH-END CONSTRUCTION CONTRACTS (MONTHLY AVERAGE FOR 2015 = 100%)

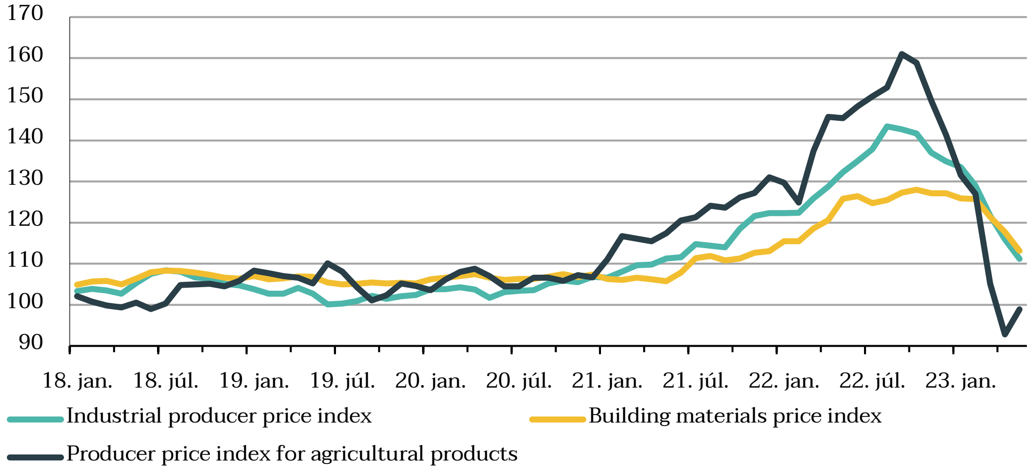


Source: Hungarian Central Statistical Office, Századvég

The growth rate of the industrial producer price index moderated.

In May 2023, the rate of increase of the industrial producer price index and the building materials price index continued to slow down, while the agricultural producer price index declined. For the latter, a year-on-year price index increase of 5.1% in March 2023 was followed by a 7.2% decrease in April 2023 and a 1.1% decrease in May 2023, in which the exceptionally high base played a role. However, it shows a mixed picture, because while producer prices of cereals, industrial crops (including oilseeds), crops and horticultural products fell sharply, producer prices of vegetables, potatoes, fruit, livestock and animal products increased on an annual basis. In May 2023, **industrial** producer prices rose by 11.2% year on year. While this is still not low, it is 4.7 percentage points lower than the year-on-year increase recorded in the previous month. The year-on-year increase in industrial producer prices was driven by rising raw material prices and rising production costs. In May 2023, on an annual basis, domestic sales prices rose by 36.5%, while export sales prices fell by 1.1%. This was driven by rising domestic sales prices in the energy industry and falling export prices. On a monthly basis, however, both industrial producer prices (1.6%), domestic sales prices (2.0%) and export sales prices (1.4%) continued to fall. **In construction**, building material prices continued their slow decline, to which the gradual slowdown in construction output may have contributed. In May 2023, compared to the same period of the previous year, building materials prices increased by 13.1%.

FIGURE 5: INDUSTRIAL PRODUCER PRICE INDEX, CONSTRUCTION INPUT PRICE INDEX, AGRICULTURAL PRODUCER PRICE INDEX (SAME PERIOD OF PREVIOUS YEAR = 100%)



Source: Hungarian Central Statistical Office, Századvég

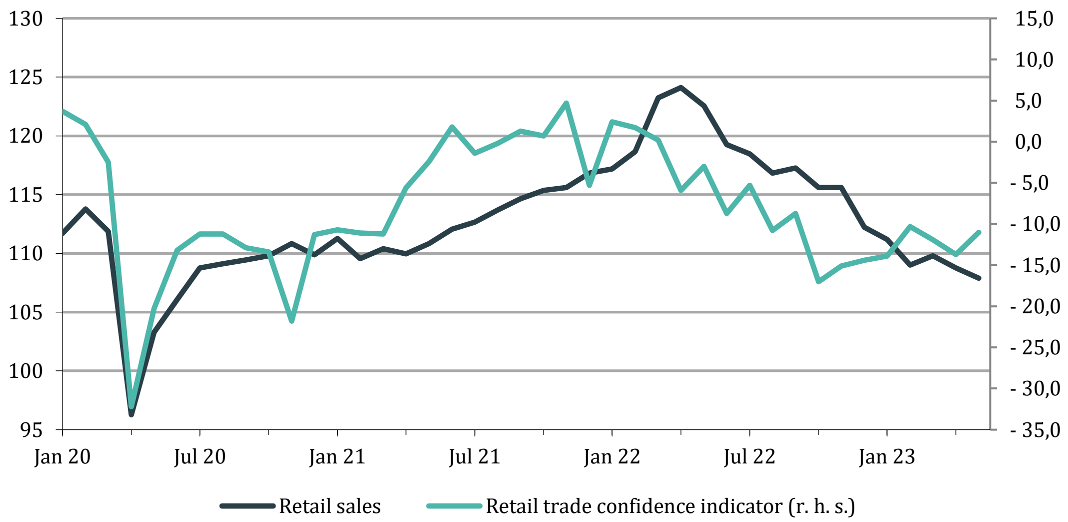
Retail sales contracted by 12.3% in May.

Raw data show that retail sales decreased by 12.7%, while calendar-adjusted data show that it decreased by 12.3% in May 2023, compared to the same period of the previous year. The significant decline in retail sales is due to the record high inflationary environment: as wages lose purchasing power, people are forced to rationalise consumption even for basic goods, and their disposable income is also decreasing significantly, in addition to basic spending. The phasing out of the fuel price cap is having a similar negative impact on retail sales, with higher fuel prices also having a significant impact on results, in addition to the very high base from last year's capped prices. In the period ahead, increasingly strong retail sales promotions, more favourable world prices and the sticking of fuel selling prices at levels more favourable than at the beginning of the year should all support a rebound in sales.

In May 2023, turnover in specialised and non-specialised food shops decreased by 7.3%, while turnover in non-food shops also decreased by 10.9%. In May, retail fuel sales fell sharply by 25.9% year on year, reflecting the base effect and higher-than-administered prices.

In non-food retailing, sales of parcel delivery and web shops fell by 9.3%, furniture and electric goods by 19.5% and computer and other manufactured goods by 6.1% compared to the same period last year. In contrast, the biggest sales increase (6.6%) was in pharmaceuticals and medicinal products. Inaddition, perfume sales increased, albeit marginally, by 0.7%. If we look at retail sales excluding the volume of fuel sales, we see that, on an annual basis, there was a 8.9% decline in the month.

FIGURE 6: RETAIL SALES AND RETAIL CONFIDENCE INDEX (JANUARY 2018 = 100%)



Remark: Seasonally and calendar adjusted indices.

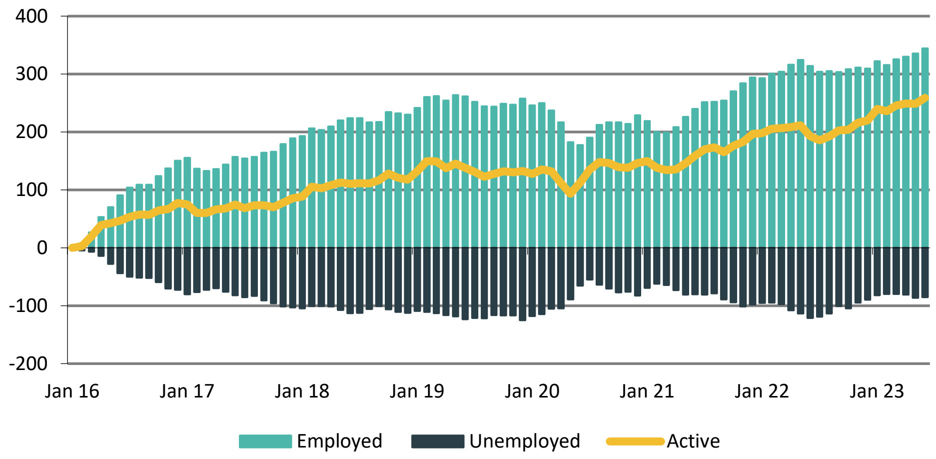
Source: Hungarian Central Statistical Office, Eurostat, Századvég

Unemployment rate at 3.8% in June.

In June 2023[1], the seasonally adjusted activity rate of the population aged 15-74 was 67.35% (4,926,000 persons), which means a labour market growth of 66,000 compared to the same period of the last year. In the period under review, the seasonally adjusted number of employees was around 4,732,000, an increase of 19,000 and 30,000 respectively compared to the previous quarter and the same period of the previous year. The rise in unemployment observed in previous months came to a halt, with 193,100 people unemployed, an increase of 36,000 compared to the same period last year.

In May, the seasonally adjusted number of employees increased by 1,800 from April, while it increased by 11,300 compared to the same period of the previous year. The most significant increase in the number of employees was in the competitive sector, with 24,000 more working in enterprises having at least 5 employees compared to May 2022, up by 2,700 compared to March 2023. The number of employees in the non-profit sector and the public sector did not change significantly.

FIGURE 7: CHANGES IN THE LABOUR MARKET (JANUARY 2016 = 0, THOUSAND EMPLOYEES)



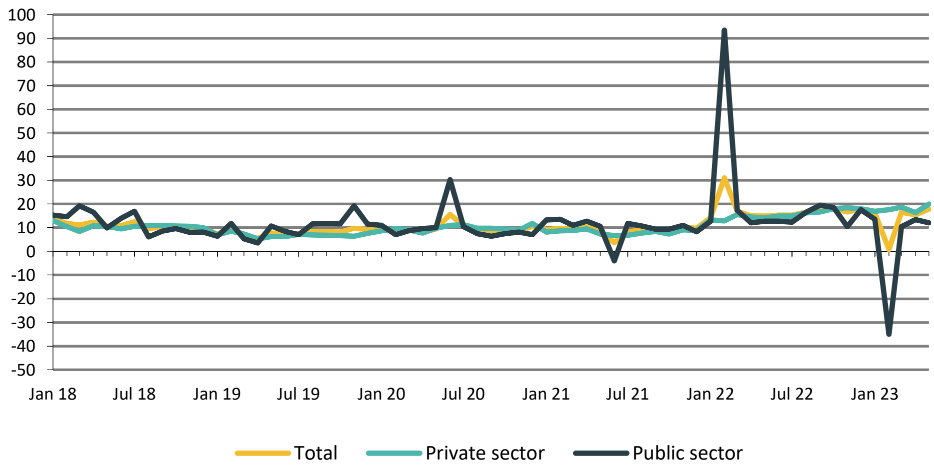
[1] Three-month moving average

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

Real earnings continued to fall in May.

In May, the average gross monthly wage in the national economy was HUF 567,800, up 17.9% compared to the same period last year. The highest average gross monthly wage was recorded in the competitive sector, at HUF 584,600. The average net monthly wage including benefits was HUF 391,500, an annual increase of 17.7%. The average regular gross monthly wage, excluding bonuses, rewards and one-off benefits, increased by 16.9% in May 2023 compared to a year earlier, to an estimated HUF 527,900. Inflation, which is still exceptionally high at 21.5% in May, caused real earnings to fall by 3%. The median gross monthly wage was HUF 449,100.

FIGURE 8: CHANGES IN GROSS WAGES (ANNUAL CHANGE, %)



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

2.4 External balance

In April, the volume of exports of goods decreased by 1.1% and imports by 5.1% year on year. This brought the foreign trade balance to a surplus of

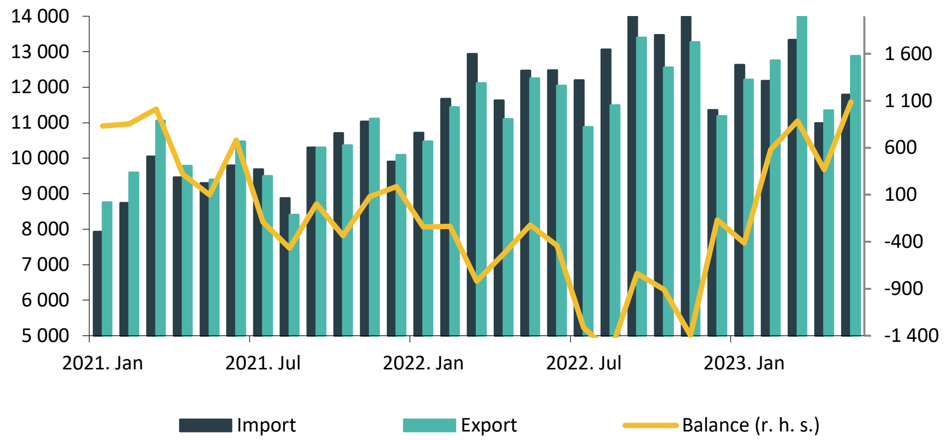
EUR 336.0 million, an improvement of EUR 894 million compared to the previous year.

In April, the import volume of food products, beverages and tobacco decreased by 3.6%, and their export volume decreased by 17.0% year on year. As for energy carriers, imports decreased by 7.5% and exports by 0.5%. As for processed products, imports decreased by 10.0%, and exports by 5.9% year on year. As for machinery and transport equipment, imports increased by 0.8%, and exports by 4.8%.

The foreign trade balance improved.

In May 2023, the first estimate put the value of exports in euro at 5.2% higher and imports in euro at 5.4% lower than a year earlier. The trade surplus in goods amounted to EUR 1.1 billion, which is EUR 1.3 billion higher than a year earlier.

FIGURE 9: BALANCE OF FOREIGN TRADE IN GOODS (EUR MILLION)



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

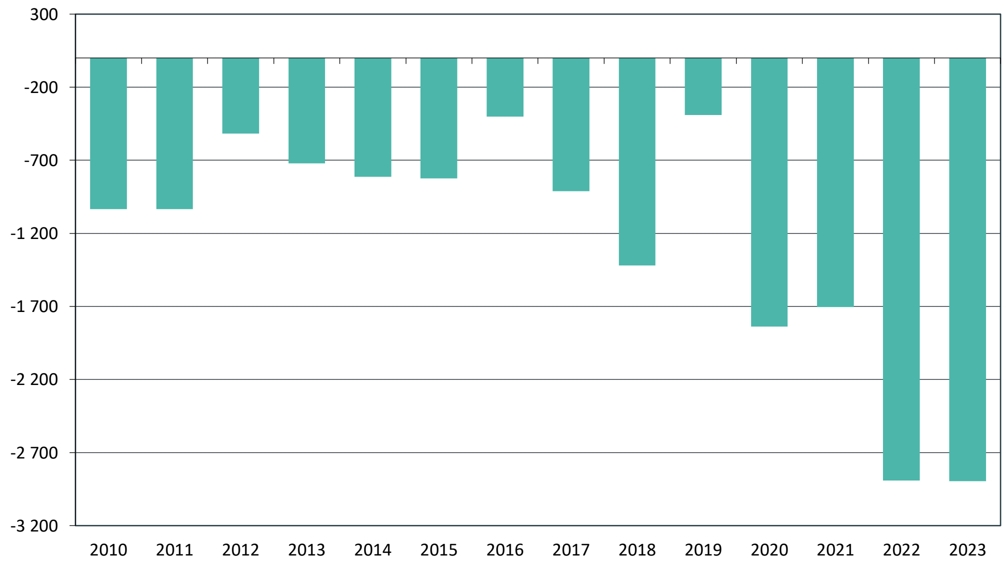
Source: Hungarian Central Statistical Office, Századvég

2.5 Fiscal outlook

Fiscal revenues grew by 23.3% and expenditure by 19.5% in the first five months, but lower-than-expected VAT receipts and higher-than-planned increases in interest payments on sovereign debt are already threatening the annual deficit target.

By the end of June 2023, the central budgetary subsystem had accumulated a deficit of HUF 2,896 billion, which is 85.1% of the annual deficit target. This deficit consisted of the HUF 2,908.3 billion deficit of the central budget, the HUF 78.1 billion deficit of social security funds and the HUF 90.4 billion surplus of extra-budgetary funds.

FIGURE 10: CENTRAL SUBSYSTEM BALANCE, 2010–2023 (JANUARY–JUNE RESULTS, HUF BILLION)



Source: Ministry of Finance, Századvég

Central government revenue in the first six months of the year was 23.3% higher than in the same period of the previous year.

Payments from business organisations were 52.5% higher than in the same period of 2022. Within payments by business entities, the largest revenue earner, corporate tax, was 38.4% (HUF 177 billion) higher than in the first six months of the previous year. Compared to the same period of the previous year, payments from the energy sector and financial institutions increased significantly by HUF 225.4 billion and HUF 104.1 billion respectively. The increase in these two items is largely attributable to the special taxes introduced in 2022.

Revenues from consumption-related taxes were 6.8% (HUF 276.7 billion) higher than a year earlier. VAT receipts were HUF 73 billion (2.2%) higher than at the end of June in the previous year. This also means that VAT receipts in the last two months were already lower than in May-June 2022. Excise tax revenue was HUF 67.5 billion (11.6%) more than in the first six months of 2022. The most significant increase (HUF 46.6 billion) was generated by tobacco products, while revenues from fuels also increased by HUF 7.9 billion.

Personal income tax revenues increased by HUF 885.1 billion compared to the first half of 2022. The increase is mainly attributable to the low base caused by family tax rebates last year and, to a lesser extent, to wage increases. Receipts from social contribution tax and social insurance contributions increased by 13.8% (HUF 420.2 billion) compared to the same period of the previous year, also caused by wage increases.

Revenue from EU programmes up to June was HUF 754.7 billion, HUF 294 billion (63.8%) more than in the same period of 2022. In contrast, expenditure on EU programmes amounted to HUF 1,461.4 billion, HUF 385.5 billion (20.9%) less than the previous year.

Central government expenditure in the first six months of the year was 19.5% higher than in the same period of the previous year.

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

The amount spent on specific and normative subsidies was HUF 1,260.5 billion higher than at the end of June last year. The most significant item of the increase was HUF 969.2 billion in expenditure to maintain discount household utility prices.

Expenditure on state property increased by HUF 427.4 billion compared to the same period last year. Expenditure on housing subsidies was HUF 60.1 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 six months of the previous year, expenditure on chapter-administered professional appropriations decreased significantly, by HUF 555.4 billion (17.2%).

In the first half of 2023, pension expenditure amounted to HUF 2,998.7 billion, up by 27%, or HUF 638 billion, compared to the same period in 2022. During the same period, expenditure on the Health Insurance Fund amounted to HUF 1,958.3 billion, an increase of 7.1% (HUF 129.2 billion) 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 4.2%.

The balance of interest expenditure and interest income was HUF 461.6 billion (64.8%) more negative at the end of June than in the first six months of 2022.

2.6 Monetary developments

In June, prices rose 20.1% on average.

In June 2023, consumer prices increased by 20.1% on average, compared to the same period of the previous year. Over the past year, the highest increases were for food (29.3%) and household energy (34.3%), the latter due to changes in household utility discounts. Consumer prices rose by 0.3% on average over a month. The seasonally adjusted core inflation rate was 20.8% higher than in the same period of the previous year.

The more significant contributors to the 29.3% average increase in food prices were the 53.0% increase in the consumer prices of other confectionery products, the 41.4% increase in the consumer prices of dairy products and the 48.6% increase in the consumer prices of bread. Butter and butter cream inflation of 35.6%, dry pasta inflation of 30.4% and pastry inflation of 33.3% also exceeded average food inflation for the month. In contrast, poultry prices (17.2%), prices of fresh Hungarian and southern fruit (16.6%) and sugar prices (13.4%) also rose at a below-average rate. The main drivers of the 18.7% average inflation in spirits and tobacco were primarily the 34.6% increase in beer prices.

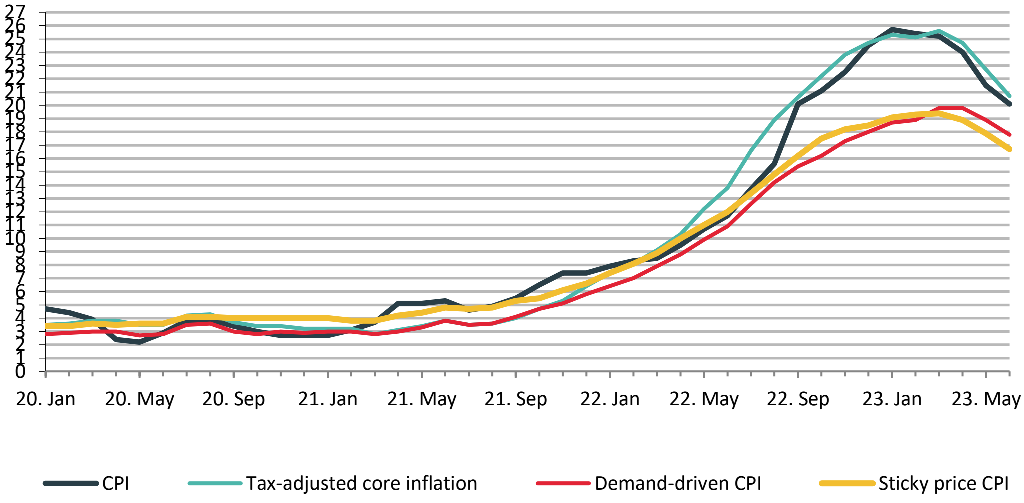
The 14.5% increase in new car prices played a particularly important role in the 6.1% average increase in the prices of consumer durables. The prices of heating and cooking appliances also increased at an above-average rate, by 13.9%, while kitchen and other furniture prices rose by 14.6% compared to the same period last year. Consumer durables inflation is moderated by a 1.0% rise in audio and video equipment and a 0.4% price decline for televisions. It is also important to highlight the improving trend in second-hand cars: inflation for new and second-hand cars has recently correlated and hovered between 15-20%, but in June, second-hand cars were only 5.2% less expensive than a year earlier. The sustained strengthening of the forint exchange rate in recent months has played a significant role in the improvement: the positive change in the exchange rate is realised more slowly due to the slower inventory turnover rate, but more strongly due to the high share of imports.

The average increase in household energy prices was 34.3% in June as compared to the same period of the previous year. Within household energy, the price of piped gas increased by 43.0%, electricity by 26.6% and cylinder gas by 44.6% 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 KSH 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.

In June, prices of services rose by an average of 14.4%, with vehicle repair and maintenance up 22.1%, tickets to sports events and museums up 26.1% and household equipment repair up 24.5%. Prices of domestic and foreign holidays also increased significantly, by 21.0% on average. The average increase in the price of services was moderated by, among other things, the prices of garbage collection, water and sewerage services remaining unchanged (100.0%) and the introduction of county and country passes, which reduced the price of travel to work and school by 21.7%. In contrast to the other main groups, services inflation has not started to fall on an annual basis, but continues to rise, slowing the decline in the overall inflation rate.

Compared to the previous month, food prices fell by an average of 0.4%, with the largest decreases recorded for seasonal food (3.2%) and milk (2.7%). The price of services rose by 0.9% on a monthly basis, while the price of household energy fell by 2.1% compared with the previous month.

FIGURE 11: THE EVOLUTION OF INFLATION (ANNUAL CHANGE IN PERCENTAGE)



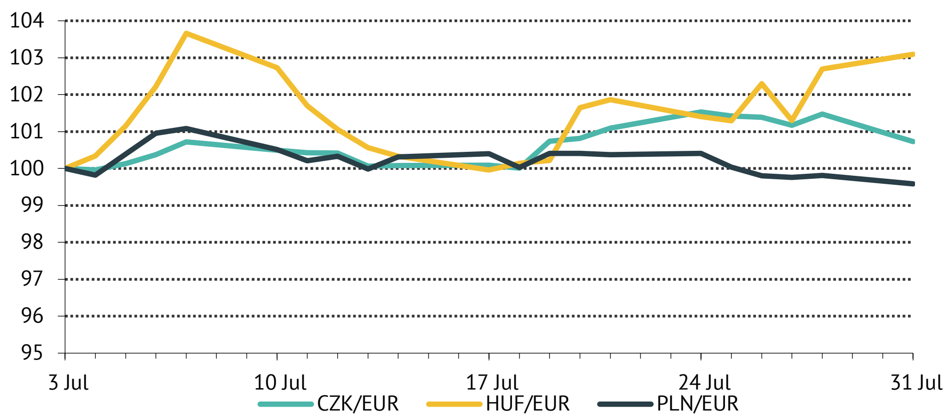
Source: MNB, Századvég

Among the core inflation indicators published by the MNB, in June, the seasonally adjusted core inflation rate was 20.8%, the core inflation rate net of indirect taxes was 20.7%, and the sticky price inflation rate was 16.7%. Core inflation excluding processed food was 17.8% in June 2023.

Over July, exchange rates in the region showed a mixed picture in relation to

Over July, exchange rates in the region showed a mixed picture in relation to the euro. The Czech koruna weakened by 0.7%, while the Polish zloty strengthened by 0.4% against the euro over the period. Government bond yields fell over the period under review: the Czech 10-year government bond yield was 23 basis points lower at 4.03%, while the Polish 10-year yield closed 30 basis points lower at 5.4%.

FIGURE 12: CHANGES IN EXCHANGE RATES IN THE REGION (BASELINE VALUE = 100%)



Source: Refinitiv, Századvég

In July, the Hungarian currency weakened against the euro, the Swiss franc and the dollar.

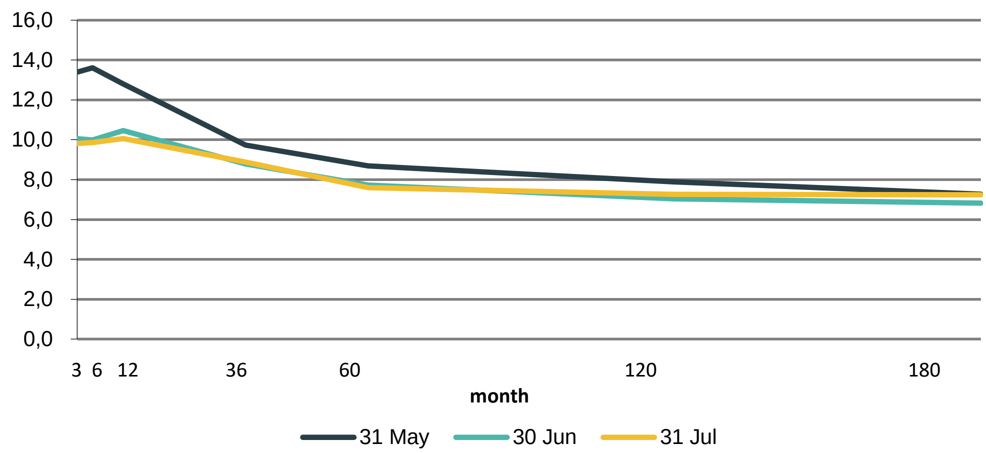
Domestic money and foreign exchange market indicators have recently shown a mixed picture, but there was a significant weakening in July. The HUF weakened by 3.1% against the euro, by 5.0% against the Swiss franc and by 1.7% against the US dollar. This means that at the end of July 2023, one euro was worth 385 forints, one US dollar was worth 349 forints and one Swiss franc was worth 401 forints. Sovereign debt held by foreigners increased by HUF 328.7 billion to HUF 6,856 billion in the past month.

The central bank continued its monetary easing in

At its meeting in July, the Monetary Council of the central bank did not change the base rate (13%) but continued to cut the policy rate. The Monetary Council left the overnight deposit interest rate at 12.5%, but also lowered the upper limit of the interest rate corridor by 100 basis points to 17.5%, together with the policy rate. The central bank's effective rate, the interest rate in overnight deposit quick tenders, fell to 15.0%. Overall, the central bank has continued monetary easing, but according to Barnabás Virág (MNB Vice Governor), there is no base rate cut on the agenda at the moment.

In the government bond market, yields for shorter maturities varied between -40 basis points and -12 basis points on the secondary yield curve in July. This means that the 3-month yield was 9.82%, the 6-month yield was 9.87% and the 1-year yield was 10.06% on 31 June. The 3-year yield increased by 10 basis points to 8.88%. Month on month, 5-year yields decreased by 13 basis points, 10-year yields increased by 23 basis points, and 15-year yields increased by 42 basis points. These three yields changed, therefore, to 7.59%, 7.26%, and 7.24%, respectively.

FIGURE 13: CHANGES IN THE HUF YIELD CURVE (%)



Source: GDMA, Századvég

On 30 June 2023, the total value of "MÁP Plusz" government securities held by retail investors was HUF 1,227.5 billion after a HUF 1,207.0 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 5,922.6 billion, an increase of HUF 1,600.9 billion compared to the end of 2022. In the significantly higher interest rate environment, the total stock of government securities held by households stood at HUF 9,136.7 billion at the end of June 2023, up from HUF 8,619.3 billion at the end of 2022, i.e. HUF 517.3 billion more than in the last month of the previous year.

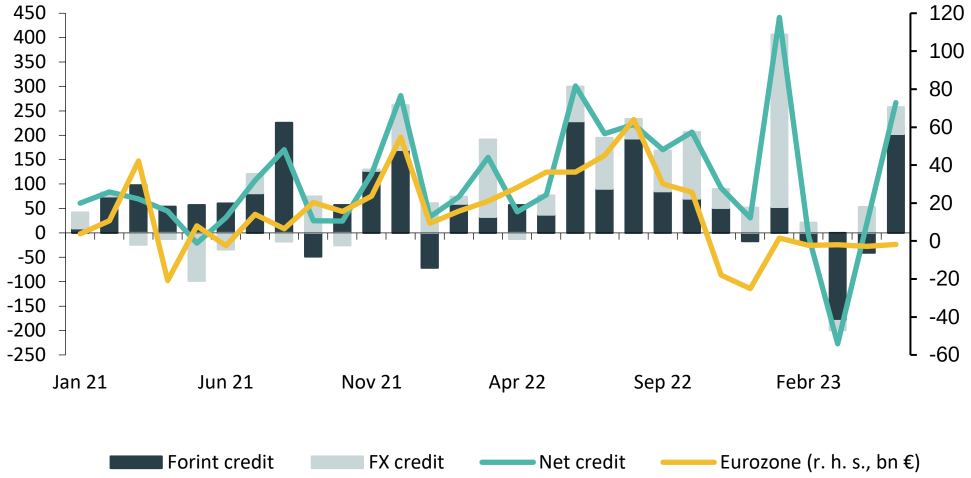
The share of foreign currency debt in the sovereign debt changed to 25.17% in June (i.e. increased by 0.1 percentage point), which is in the range (maximum 30%) specified in the financing plan for 2023 of GDMA. In the first six months of 2023, average foreign currency debt averaged 25.54%, down by more than 1.5 percentage points compared to the first month of 2023.

At the end of July, Hungary's sovereign debt rating remained at Baa2 with a stable outlook at Moody's, BBB with a stable outlook at S&P and BBB with a negative outlook at Fitch. The risk rating of Hungarian government bonds is therefore in the recommended for investment category of all three major international rating agencies.

The stock of foreign currency loans to

Seasonally adjusted data show that the net borrowing of HUF loans in the business sector was HUF 202.9 billion in May 2023. At the same time, net lending in foreign currency increased, with net borrowing amounting to HUF 55.1 billion in the fifth month of the year. Based on seasonally adjusted data, total net borrowing was HUF 267.0 billion in February. Corporate loan repayment in the euro area was minus EUR 1.7 billion in May 2023.

FIGURE 14: CORPORATE BORROWING (HUF BILLION)



Source: MNB, ECB, Századvég

3. Századvég's forecast[2]

TABLE 1:2023 Q2 FORECAST

	2022	2023	2024
Gross domestic product (volume index)	4.6	1.1	4.3
Internal market demand (volume index)	5.1	-2.2	4.6
Export volume index (based on national accounts)	11.8	2.5	6.9
Import volume index (based on national accounts)	11.1	-0.5	6.8
Balance of international trade in goods (EUR billion)	-8.5	-3.7	-3.7
Consumer price index (%)	14.4	18.6	5.1
Central bank base interest rate at the end of the period (%)	13.0	11.7	6.6
Unemployment rate (%)	3.6	4.3	4.6
Current account balance as a percentage of GDP	-8.2	-4.1	-3.3
Net lending as a percentage of the GDP	-6.2	-2.1	-1.3
ESA balance of public finances as a percentage of GDP	-6.2	-3.9	-3.3
Sovereign debt as a percentage of GDP	73.5	68.2	67.1

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

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

	2023			2024		
	03.2023	06.2023	change	03.2023	07.2023	change
Gross domestic product (volume index)	0.6	1.1	0.5	3.4	4.3	0.9
Internal market demand (volume index)	-1.4	-2.2	-0.8	1.6	4.6	3.0
Export volume index (based on national accounts)	1.8	2.5	0.7	4.5	6.9	2.4
Import volume index (based on national accounts)	-1.0	-0.5	0.5	2.6	6.8	4.2
Balance of international trade in goods (EUR billion)	-6.5	-3.7	2.8	-5.5	-3.7	1.8
Consumer price index (%)	17.5	18.6	1.1	4.5	5.1	0.6
Central bank base interest rate at the end of the period (%)	10.7	11.7	1.0	7.8	6.6	-1.2
Unemployment rate (%)	3.9	4.3	0.4	3.6	4.6	1.0
Current account balance as a percentage of GDP	-4.0	-4.1	-0.1	-2.2	-3.3	-1.1
Net lending as a percentage of the GDP	-1.7	-2.1	-0.4	0.0	-1.3	-1.3
Balance of public finances as a percentage of GDP	-3.9	-3.9	0.0	-2.5	-3.3	-0.8
Sovereign debt as a percentage of GDP	69.7	68.2	-1.5	67.6	67.1	-0.5

Source: Századvég's calculation

[2] Date of preparation: 22 June 2023