



MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL
TO THE ABRIDGED MINUTES
OF THE MONETARY COUNCIL MEETING
OF 18 JUNE 2024

JUNE
2024

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The background material ‘Macroeconomic and financial market developments’ is based on information available until 12 June 2024.

Article 3 (1) of the MNB Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines achieving and maintaining price stability as the primary objective of the Magyar Nemzeti Bank. The MNB’s supreme decision-making body is the Monetary Council. The Council convenes as required by circumstances, but at least twice a month, according to a pre-announced schedule. At the second scheduled meeting each month, members consider issues relevant to decisions on central bank interest rates. Abridged minutes of the Council’s rate-setting meetings are released regularly, before the next policy meeting takes place. As a summary of the analyses prepared by staff for the Monetary Council, the background material presents economic and financial market developments, as well as new information which has become available since the previous meeting.

The abridged minutes and the background materials to the minutes are available on the MNB’s website at:

<https://www.mnb.hu/en/monetary-policy/the-monetary-council/minutes>

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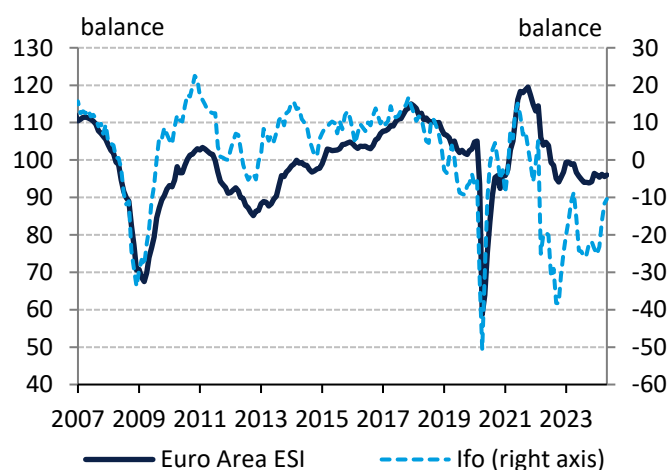
1. Macroeconomic developments

1.1. Global macroeconomic environment

In 2024 Q1, GDP grew faster year on year in China and somewhat slower in the United States, while it grew at a more subdued pace in the European Union. International labour market developments remained favourable in May. The euro area's economic sentiment index improved. In May, annual inflation dropped to 3.3 percent in the United States, and accelerated by 0.3 percent in China. Inflation in the euro area was 2.6 percent year on year, while core inflation rose to 2.9 percent in May.

In 2024 Q1, GDP grew faster year on year in China and somewhat slower in the United States, while it grew at a more subdued pace in the European Union. GDP in the United States expanded by 2.9 percent on an annual basis in 2024 Q1, while GDP growth in China rose to 5.3 percent from 5.2 percent at the end of last year. The EU's 0.3 percent growth in the previous quarter was followed by an increase of 0.5 percent in 2024 Q1, while GDP in the euro area rose by 0.4 percent. Based on the first-quarter data of EU Member States, GDP grew in 20 countries on an annual basis, with the highest increase in Malta (+4.6 percent) and the largest decrease being registered in Ireland (-5.9 percent). The economy of Hungary's main trading partner, Germany, shrank by 0.2 percent. Among the countries in the region, GDP grew in the Czech Republic (+0.2 percent), Romania (+1.8 percent), Poland (+1.3 percent) and Slovakia (+2.7 percent).

Chart 1 Business climate indices in Hungary's export markets



Source: European Commission, Ifo

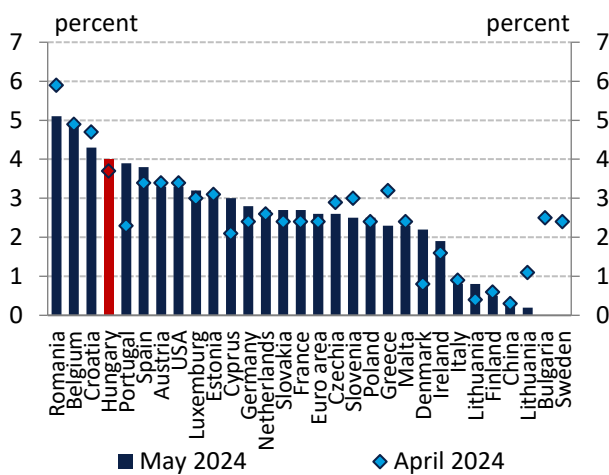
Monthly industrial production fell in the euro area and the US, while it rose in China. The volume of retail trade stagnated in the euro area, and rose by 3.0 percent in the USA and by 2.3 percent in China.

In May, the Purchasing Managers' Index for manufacturing improved in the United States, China and the euro area as well. Accordingly, the index exceeded the expansion threshold in the USA and China, and fell short of it in the euro area. The euro area's Economic Sentiment Indicator (ESI) improved by 0.4 points in May (Chart 1).

International labour market developments remained favourable in May. In the United States, the unemployment rate rose slightly to 4.0 percent in May from 3.9 percent in April, but this rate still remains historically low. The number of US non-agricultural employees increased by 272,000 in May, far above expectations (180,000) and a significant increase compared to the previous month (165,000). The unemployment rate in the euro area was 6.4 percent in April, lower by 0.1 percentage points compared to March.

Annualised inflation in the United States stood at 3.3 percent in May, representing a 0.1 percentage point

Chart 2 Developments in the international inflation environment



Note: HICP inflation rates for eurozone member countries.
 Source: Eurostat

decline compared to April. Similar to the data recorded in April, consumer prices in China rose by 0.3 percent year on year in May. According to preliminary data, euro area inflation was 2.6 percent year on year, while core inflation rose to 2.9 percent in May. The inflation figure was above analysts' expectations by 0.1 percentage point, while core inflation exceeded expectations by 0.2 percentage points.

From the countries of the region, inflation declined in Romania and the Czech Republic and rose in Poland and Slovakia in May. Based on data from the national statistical institutes, inflation was 5.1 percent in Romania, 2.5 percent in Poland and 2.6 percent in the Czech Republic. Based on preliminary Eurostat data, prices rose by 2.7 percent in a year in Slovakia. Disinflation in Europe has decelerated, with inflation stagnating or rising in 11 EU countries in April (Chart 2).

1.2. Real economic trends in Hungary

Gross domestic product increased by 1.1 percent in 2024 Q1 relative to the same period of the previous year. Compared to the previous quarter, economic performance increased by 0.8 percent. In March 2024, the volume of construction output fell by 6.3 percent year on year. In April, the volume of industrial production rose by 6.4 percent, while the volume of retail sales increased by 3.2 percent on an annual basis. Based on preliminary data, trade balance showed a surplus of EUR 1.8 billion in March 2024. In April 2024, the average number of employees aged 15–74 was 4,749,000. The unemployment rate stood at 4.4 percent in April.

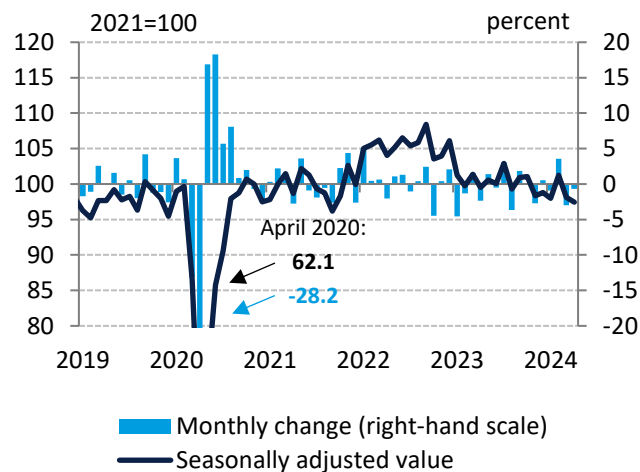
1.2.1. Economic growth

Detailed data released by the HCSO confirmed that, based on raw data, the gross domestic product grew by 1.1 percent in 2024 Q1 year on year. Based on balanced data adjusted for seasonal and calendar effects, output rose by 1.7 percent on an annual basis. The difference is explained by the fact that there were two working days less in the first quarter of this year than a year ago. Compared to the previous quarter, economic performance expanded by 0.8 percent. The largest contributors to the annual increase in economic output were market services with 1.7 percentage points, mainly real estate transactions (+0.5 percentage points) and information and communication (+0.4 percentage points). At the same time, economic growth was held back by a 0.9-percentage point decline in the value added in the industry sector, which is a major contributor to the national economy as a whole.

Due to the favourable calendar effect, the dynamics of industrial production turned positive again in April 2024 (+6.4 percent), while the underlying trends remained weak (Chart 3). Based on seasonally and workday-adjusted data, the rate of the decline was 2.1 percent on an annual basis. The significant difference compared to the raw data is due to the fact that there were three working days less in this month than in April 2023. Industrial output was 0.7 percent lower in April than in the previous month, according to seasonally and working-day adjusted data. Based on the HCSO's communication, most manufacturing sub-sectors contributed to the increase in output in April. Among the most important sub-sectors, the manufacturing of transport equipment, computer, electronic and optical products, as well as food, beverages and tobacco products grew year on year, while the manufacture of electrical equipment declined.

In March 2024, the volume of construction output fell by 6.3 percent year on year. Construction of buildings and other construction fell by 10.0 percent and 0.8 percent, respectively, year on year. Based on seasonally and workday-adjusted data, total construction output fell by 2.8 per cent compared to February 2024. The volume of new contracts increased by 19.4 per cent in March. In particular, the volume of contracts for the construction of buildings increased by 50.2 percent and for the construction of other structures it was lower by 23.3 percent relative to the previous year. The

Chart 3 Developments in industrial production



Note: From January 2024, seasonally adjusted value is based on the monthly averages of 2021.

Source: MNB calculation based on HCSO data

volume of contracts in the construction sector at the end of March was 3.7 percent lower compared to the same period a year earlier. In particular, contracts for the construction of buildings and other structures were down 0.7 percent and 6.7 percent, respectively, compared to the same period of the previous year.

In March 2024, the volume of retail sales rose by 3.2 percent year on year, as a result, the growth, that started in January, continued. Retail trade excluding fuel sales rose by 3.4 percent on a calendar-adjusted basis. The annual volume of sales at filling stations increased by 2.0 percent. In April, retail sales decreased by 0.9 percent on a monthly basis. Retail food trade rose by 3.6 percent on an annual basis. In addition, sales also increased in parcel delivery services (+7.9 percent), textiles, clothing and footwear (+7.7 percent), pharmaceuticals, medicinal products and perfumes (+4.2 percent), books and computers (+1.1 percent) and slightly in miscellaneous industrial goods (+0.1 percent). In April, sales declined only in the product groups of furniture, hardware and ironware (−1.8 percent).

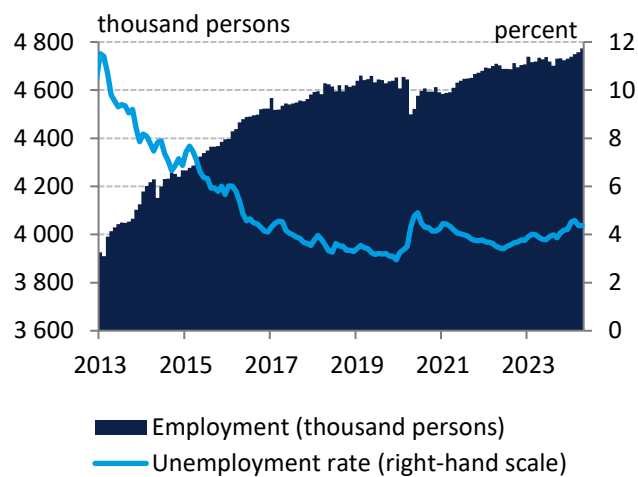
Based on preliminary data, the trade balance showed a surplus of EUR 1.8 billion in April 2024, the largest amount registered since the start of data supply in 1995. The balance improved by EUR 197 million compared to the previous month and by EUR 1.4 billion compared to the equivalent period of the previous year. The balance adjusted for VAT residents increased by EUR 1.3 billion compared to a year earlier, thus showing a surplus of EUR 1.1 billion. In February, the value of exports rose by 8.8 percent in euros on an annual basis. The nominal value of goods import in euro terms shrank by 3.5 percent over a year. On a seasonally and calendar-adjusted basis, exports fell by 2.0 percent and imports by 3.1 percent in April compared to March.

The NAV's (National Tax and Customs Administration) inflation-adjusted turnover of online cash registers was 1.9 percent higher in April than in the same period last year, as a result, turnover has been in the positive territory since February. Based on online cash register data, nominal turnover increased by 5.6 percent year on year (Chart 5). In May, freight traffic increased (+14.0 percent), while passenger road traffic contracted (−13.7 percent). Electrical load fell by 4.5 percent. Cinema admissions decreased by 12.8 percent, while catering turnover increased by 10.3 percent. The number of Google searches for the term “unemployment benefit” rose in May.

1.2.2. Employment

According to the Labour Force Survey, the average number of workers aged 15–74 equalled 4,749,000 in April 2024, which, seasonally adjusted, is 16,000 higher than in March.

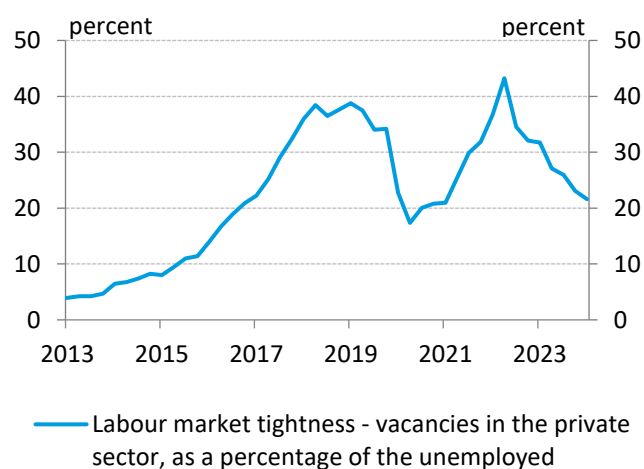
Chart 4 Number of persons employed and the unemployment rate



Note: Employment based on seasonally adjusted data.

Source: HCSO

Chart 5 Labour market tightness indicator



Note: Seasonally adjusted quarterly data.

Source: HCSO, MNB calculation

In the period February–April 2024, the average number of employed persons was 4,739,000, which is 41,000 higher than in the same period of the previous year. In the same period, the average number of persons employed in the primary labour market increased by 38 thousand and the number of persons working at a business unit abroad rose by 11 thousand, while the number of persons in fostered employment decreased by 8 thousand relative to the same period in the previous year.

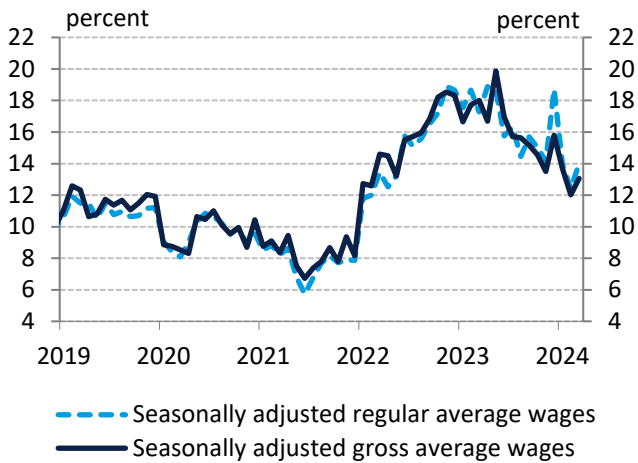
The number of unemployed persons amounted to 217 thousand in March, 27 thousand more than in the same period a year earlier. Thus, the overall unemployment rate stood at 4.4 percent (Chart 4). In April, the seasonally adjusted unemployment rate rose by 6 thousand compared to March. According to raw data from the National Employment Service (NFSZ), there were 231,000 registered jobseekers in Hungary in April 2024 and 226,000 in May 2024. This represents a decline of 5 thousand and 3 thousand, respectively, relative to the same period of the previous year. Seasonally adjusted data show practically no change in the number of registered jobseekers in May 2024 compared to April, and this figure continues to be lower than in the months before the outbreak of the coronavirus pandemic.

The labour market has become less tight in recent months (Chart 5). There were 46,000 vacancies in the private sector in 2024 Q1, 21.6 percent fewer than in the equivalent quarter of the previous year and 5.7 percent fewer compared to the previous quarter. Labour demand in both manufacturing and market services fell compared to the previous quarter. In manufacturing, there were 0.8 thousand fewer job vacancies than in 2023 Q4. In the market services sector, there were 28.2 thousand job vacancies in 2024 Q1, 2.1 thousand fewer than in the previous quarter. In the public sector, vacancies rose by 1.5 thousand compared to the previous quarter.

1.3. Inflation and wages

In May 2024, consumer prices rose by 4.0 percent year on year. Core inflation and core inflation excluding indirect tax effects continued to fall with both indicators moderating to 4.0 percent. Incoming data were below analysts' unanimous expectations. In March 2024, average regular wages (excluding bonuses) rose by 14.9 percent in the national economy and by 13.3 percent in the private sector in annual terms.

Chart 6 Dynamics of average earnings in the private sector



Source: MNB calculation based on HCSO data

1.3.1. Wages

In March 2024, average gross earnings in the national economy rose by 13.9 percent and in the private sector by 12.7 percent compared to the same period a year earlier.

Average regular earnings (excluding bonuses) rose by 14.9 percent in annual terms in the national economy and by 13.3 percent in the private sector (Chart 6). Regular earnings rose by 3.8 percent on a monthly basis, below the historical rate but slightly above last year's dynamics. Bonus payments were 12.8 percent of regular wages, which is less than the level recorded last year but is still considered high by historical standards.

According to seasonally adjusted data, the annual growth in both gross average wages and regular average wages accelerated in the private sector compared to the previous month (Chart 6). In the private sector, wage dynamics in market services exceeded the dynamics observed in manufacturing.

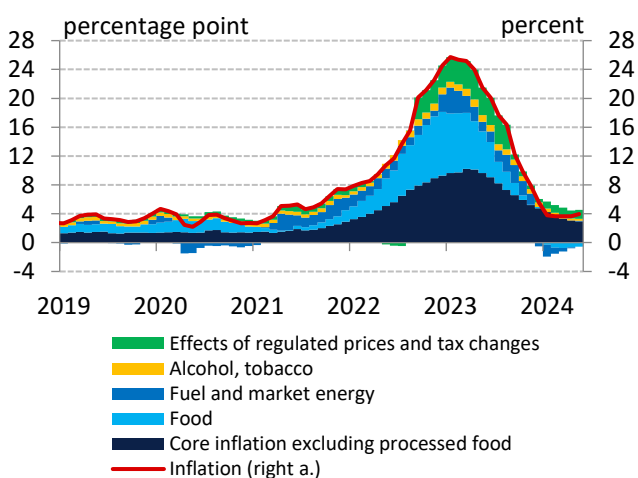
Based on raw data, wages in manufacturing were 11.7 percent higher in March compared to the same period last year. Regarding market services, the Hungarian Central Statistical Office registered an increase of 12.9 percent. As for the sectors of the national economy, wages in tourism grew by 17.4 percent, by 15.1 percent in construction and by 12.6 percent in trade relative to the same period of the previous year.

1.3.2. Inflation developments

In May 2024, consumer prices rose by 4.0 percent year on year (Chart 7). Core inflation and core inflation net of indirect taxes continued to fall, both indicators moderating to 4.0 percent.

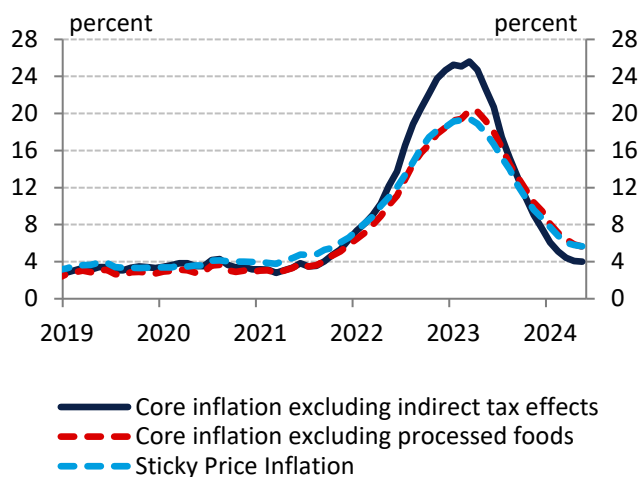
In monthly terms, the price of the representative consumer basket decreased by 0.1 percent, while in the case of core inflation an increase of 0.5 percent was observed. The annualised consumer price index increased by 0.3 percentage points relative to the previous month. The increase in inflation was driven by the acceleration in the price dynamics of fuels (+0.2 percentage point) and goods with a price cap (+0.2 percentage point) reflecting base effects, which were partly offset by the disinflationary effect of market services (-0.1 percentage point). As a result of the latter, annual core inflation fell by 0.1 percentage point. The annual inflation rate for industrial goods stood at 1.7 percent as in the previous month, while the price index for market services dropped to 9.2 percent

Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

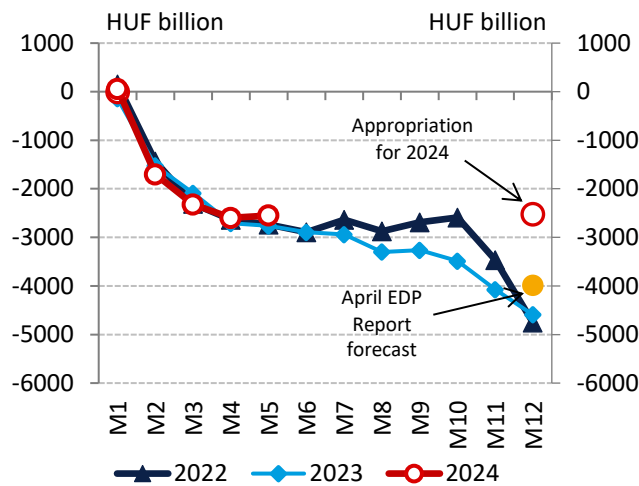
on an annual basis. Unprocessed food prices fell by 1.2 percent and processed food prices by 2.4 percent year on year. Fuel inflation stood at 9.2 percent on an annual basis. The annual price index for goods and services with regulated prices was 4.5 percent. Incoming data were below the consensus of analysts' expectations. The median equalled 4.2 percent with expectations ranging from 3.9 to 4.6 percent.

The MNB's annualised indicators, which capture more persistent inflation trends, also declined in May. Inflation for sticky-price goods fell by 0.2 percentage points, and annual core inflation excluding processed food decreased by 0.3 percentage points compared to the previous month (Chart 8).

1.4. Fiscal and external balance trends

The central sub-sector of the general government closed May with a surplus of HUF 49 billion, the first surplus since 2016. This implies that the deficit cumulated from the start of the year decreased to HUF 2,549 billion by the end of May. In April 2024, the current account surplus amounted to EUR 1,160 million, while net lending stood at EUR 1,167 million. The rise in the monthly current account balance to another historic high was mainly driven by yet another record: a high surplus in the goods balance.

Chart 9 The cumulative cash balance of the central government budget from the beginning of the year



Source: 2024 Budget Act, Hungarian State Treasury, HCSO

1.4.1. Fiscal trends

The central sub-sector of the general government closed May with a surplus of HUF 49 billion, the first surplus since 2016. This implies that the deficit cumulated from the start of the year decreased to HUF 2,549 billion by the end of May. (Chart 9).

Central sub-sector revenues rose by HUF 327 billion on an annual basis in May, mainly driven by a 10.9 percent (HUF 107 billion) rise in labour taxes and contributions, a 44 percent (HUF 125 billion) increase in net VAT revenues and a HUF 137 billion increase in revenues related to EU funds. Revenues related to public property were around 110 billion forints below the higher-than-usual level in May 2023.

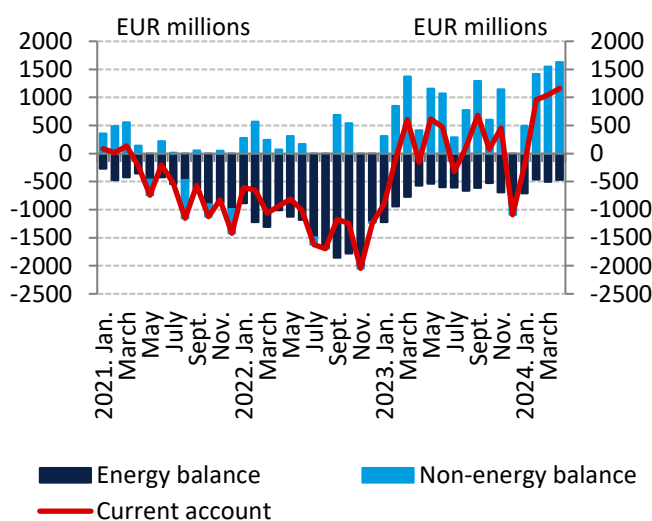
Budget expenditures in May were HUF 225 billion higher than in the same period of the previous year. The increase is mainly due to a HUF 230 billion increase in the net own expenditures of central budgetary organisations and chapters and a HUF 45 billion increase in pension expenditures. The higher spending was partly offset by a HUF 160 billion decrease in expenditures related to public property compared to May last year.

1.4.2. External balance developments

In April 2024, the current account surplus amounted to EUR 1,160 million, while net lending stood at EUR 1,167 million (Chart 10). The rise in the monthly current account balance to another historic high was mainly driven by yet another record: a high surplus in the goods balance. The year-on-year increase in exports can be primarily attributed to rising industrial export sales reflecting the calendar effect. The fall in imports continued to be supported by lower energy prices. In April, the surplus on the services balance was above the level of a year earlier, while the deficit on the income balance was slightly lower than in April last year. The surplus on the transfer balance has contracted, reflecting a decline in EU funds.

Financial account data show that net external debt declined significantly in April, while net FDI inflows increased substantially. The high level of net FDI inflows – over EUR 1.1 billion – can be attributed to non-residents’ foreign direct investments in Hungary. The similar, EUR 1.1 billion decline in net external debt resulting from transactions can be linked to the public sector.

Chart 10 Developments in current account and energy balance



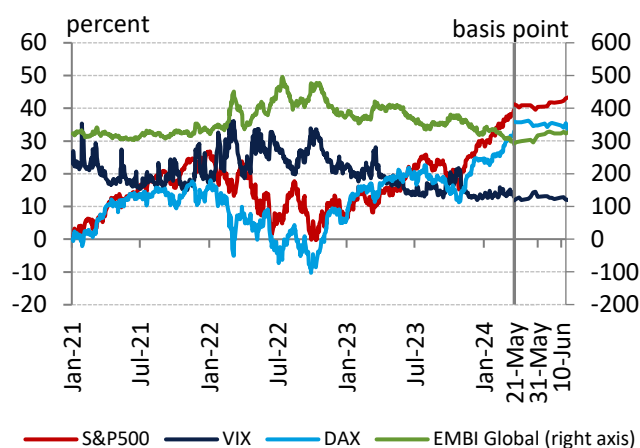
Note: The last monthly value of the energy balance is an estimate.
Source: MNB, HCSO

2. Financial markets

2.1. International financial markets

International risk appetite has weakened in the recent period. Market participants' attention was still focused on expectations for the monetary policy by the world's leading central banks. Developed and emerging market stock market indices were mixed over the period, with long yields mostly rising in developed markets.

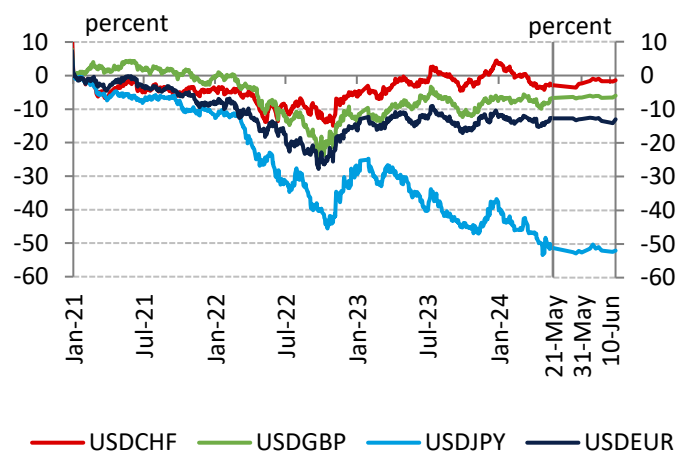
Chart 11 Developed market equity indices, the VIX index and the EMBI Global Index



Note: Stock indices (S&P500 and DAX) normalised to the beginning of 2021.

Source: Bloomberg

Chart 12 Evolution of developed market foreign exchange rates compared to the first trading day of January 2021



Note: Positive values indicate the strengthening of the variable (second) currency.

Source: Bloomberg

International risk appetite has weakened in the recent period. Market participants' attention was still focused on expectations about the monetary policy of the world's leading central banks. Of the risk indicators, the VIX index, the key measure of US equity market volatility, increased by 1 percentage point. The EMBI index, which captures emerging market bond spreads, also rose (Chart 11).

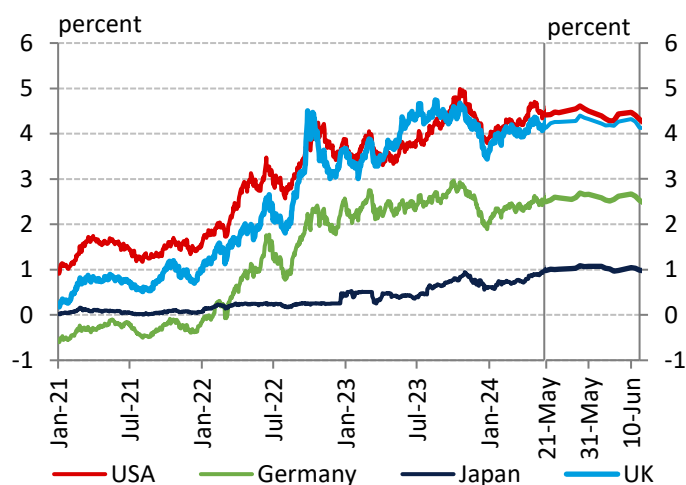
Developed and emerging market stock exchange indices were mixed over the period. Of the leading US stock market indices, the S&P rose, while the Dow Jones fell. European indices generally declined by 1.4–4.1 percent. Of the Asian indices, Japan's Nikkei was up 0.5 percent, while Chinese indices fell 4 percent. The MSCI index, which tracks emerging market stock exchanges, was down 2.1 percent.

The dollar exhibited mixed developments against the major currencies: it strengthened by nearly 1 percent against the euro and the Japanese yen, while it weakened by 1.5 percent against the Swiss franc and 0.2 percent against the British pound (Chart 12).

Developed market long yields have increased in most cases since the previous interest rate decision (Chart 13). The US ten-year yield fell by 2 basis points since the previous interest rate decision, while the German long yield rose by 15 basis points. With the exception of Poland, ten-year government bond yields increased in the countries of the region.

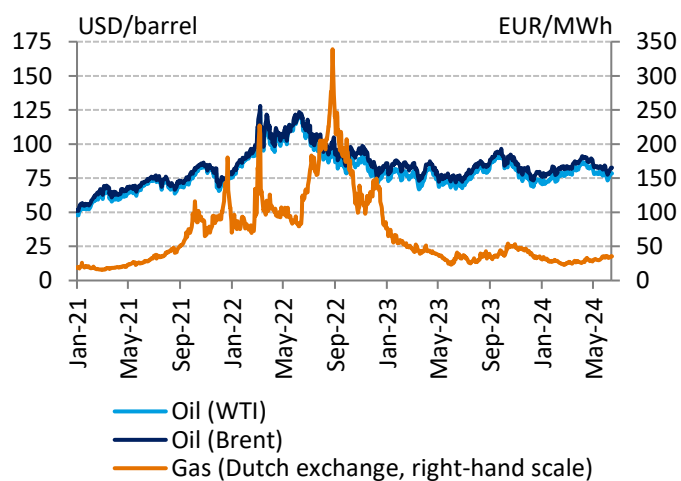
Commodity prices have been mixed since the previous interest rate decision. The Bloomberg commodity price index fell by 4.2 percent during the period. The fall is largely attributed to changes in the prices of industrial metals and cereals. On the energy market, oil prices moderated somewhat, while gas prices rose slightly, with Brent and WTI oil prices falling by 0.5 and 1.0 percent to the vicinity of USD 82 and 78, respectively (Chart 14). Although European gas prices have continued to rise since the previous interest rate decision, they still remain subdued.

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021

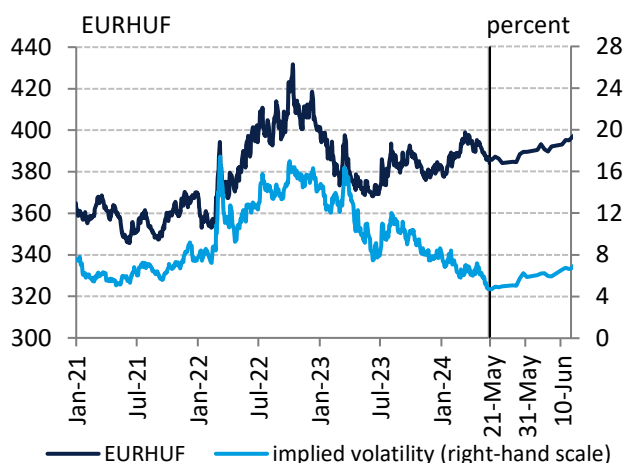


Source: Bloomberg

2.2. Developments in domestic money market indicators

The forint has weakened against the euro since the May interest rate decision. The short- and long-term sections of the government bond yield curve shifted upwards, while the middle remained broadly unchanged. The 3-month BUBOR fell by 26 basis points to 6.9 percent.

Chart 15 EUR/HUF exchange rate and the implied volatility of exchange rate expectations



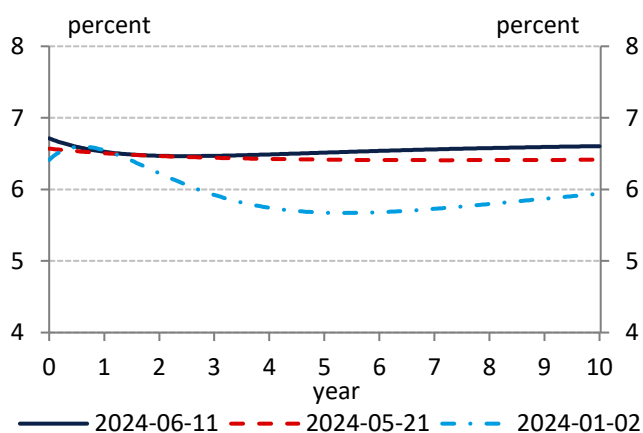
Source: Bloomberg

The forint has weakened against the euro since the May interest rate decision (Chart 15). In the days following the May interest rate decision, the EUR/HUF exchange rate moved within the range of 384–388, and from the last days of May, the deterioration in international sentiment led to a depreciation of the Hungarian currency in parallel with the Polish zloty until the end of the period, when the EUR/USD exchange rate reached as high as 395, translating to an overall depreciation of 2.3 percent. Regional currencies were mixed during the period, with the Polish zloty depreciating by 2.0 percent and the Czech koruna appreciating by 0.1 percent. The Romanian leu was stable against the euro.

The 3-month BUBOR, which is relevant to monetary transmission, has fallen by 26 basis points since the previous interest rate decision to 6.9 percent.

The short and long ends of the government bond yield curve shifted upwards, while the middle of the curve remained broadly unchanged (Chart 16). The inter-year section of the yield curve moved up by 2–14 basis points, while the section outside the year was up 3–20 basis points.

Chart 16 Shifts in the spot government yield curve



Source: Bloomberg

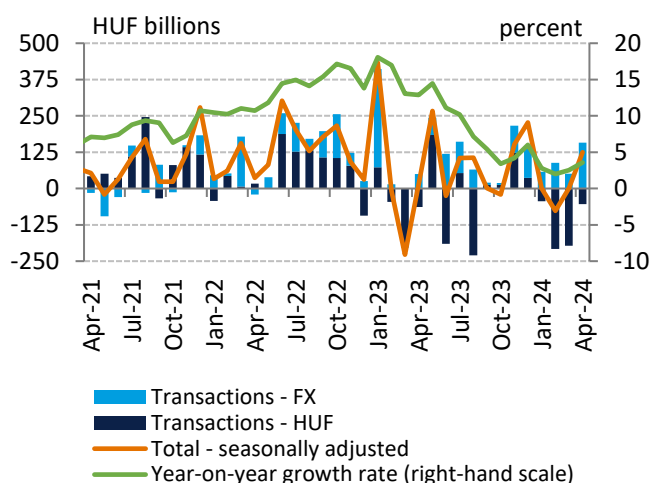
Since the previous interest rate decision, demand has been generally strong at both treasury bill auctions and government bond auctions. During the period under review, the average number of bids accepted by the Government Debt Management Agency in treasury bill auctions was almost 1.4 times the pre-announced volume. In government bond auctions, the GDMA usually accepted bids above the pre-announced amount, close to double the amount on average.

Non-residents' holdings of forint government securities increased. Non-residents' holdings of forint government securities increased by HUF 263 billion to HUF 7,149 billion. As a result, the market share of forint government securities held by foreigners thus stood at 19.8 percent.

3. Trends in lending

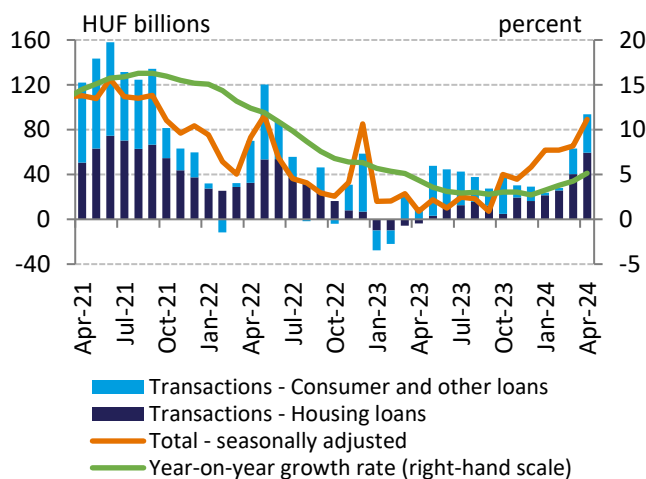
In April 2024, lending to corporations and households increased. The smoothed interest rate spreads on forint corporate loans dropped significantly compared to the previous month.

Chart 17 Net borrowing by non-financial corporations



Source: MNB

Chart 18 Net borrowing by households



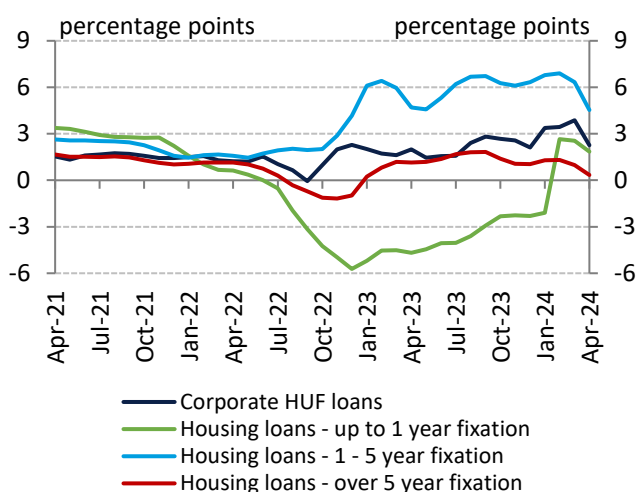
Source: MNB

The corporate loan portfolio increased by HUF 103 billion in April 2024, due to a HUF 54 billion decline in forint lending and a HUF 157 billion increase in foreign currency loans. Accordingly, the annual growth rate of loans accelerated to 3.6 percent from the 2.5 percent recorded in March (Chart 17). Credit institutions contracted new non-overdraft loans in an amount of HUF 385 billion during the month, which is only 3 percent lower than in the same period last year, which was an intensive contracting period of the Gábor Baross Reindustrialisation Loan Programme. The relatively high level of new disbursements was mainly driven by large, individual transactions.

In April, household lending increased by HUF 94 billion as a result of transactions, bringing the annual growth rate of the stock to 5.1 percent, up by 0.9 percentage points from March (Chart 18). Due to the low base, the HUF 235 billion volume of new household loan contracts was 96 percent higher than in the same period last year, and the value of newly contracted housing loans rose by 212 percent year on year compared to the low level recorded last year. The HPS Plus programme, available since January, performed around 1,200 contracts signed in April, amounting to HUF 30.3 billion.

The smoothed interest rate spread on corporate forint loans fell by 161 basis points from the previous month to 2.26 percentage points in April 2024 (Chart 19). As for housing loans, the spread on products with a fixed interest rate beyond 5 years decreased by 64 basis points to 0.34 percentage points at the end of the review period.

Chart 19 Developments in corporate and household credit spreads



Note: In the case of household loans, APR-based smoothed spreads calculated using the average reference rate for the month in which the loan was issued. In the case of forint corporate loans and housing loans with variable interest or interest fixed for 1 year at the most, the 3-month BUBOR, while in the case of housing loans fixed for over one year the margin above the relevant IRS.
Source: MNB