



# MACROECONOMIC AND FINANCIAL MARKET DEVELOPMENTS

BACKGROUND MATERIAL  
TO THE ABRIDGED MINUTES  
OF THE MONETARY COUNCIL MEETING  
OF 21 MAY 2024

MAY  
2024

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*The background material ‘Macroeconomic and financial market developments’ is based on information available until 15 May 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>

# Table of contents

1. Macroeconomic developments.....	4
1.1. Global macroeconomic environment.....	4
1.2. Real economic trends in Hungary.....	6
1.2.1. Economic growth.....	6
1.2.2. Employment.....	7
1.3. Inflation and wages.....	9
1.3.1. Wages.....	9
1.3.2. Inflation developments.....	9
1.4. Fiscal and external balance trends.....	11
1.4.1. Fiscal trends.....	11
1.4.2. External balance developments.....	11
2. Financial markets.....	12
2.1. International financial markets.....	12
2.2. Developments in domestic money market indicators.....	14
3. Trends in lending.....	15

# 1. Macroeconomic developments

## 1.1. Global macroeconomic environment

In 2024 Q1, GDP grew faster year on year in China, and slightly slower in the United States while at a more moderate pace in the European Union. International labour market developments remained favourable in April, too. The euro area's economic sentiment index deteriorated. In April, annual inflation fell to 3.4 percent in the United States and accelerated to 0.3 percent in China. Eurozone inflation was 2.4 percent year on year, while core inflation fell to 2.7 percent in April.

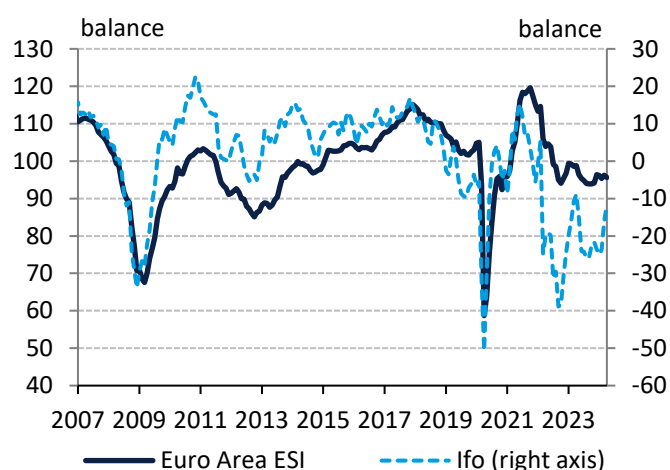
**In 2024 Q1, GDP grew faster year on year in China, slightly slower in the United States and at a more moderate pace in the European Union.** GDP in the United States expanded by 3.0 percent on an annual basis in 2024 Q1, while GDP growth in China rose to 5.3 percent from 5.2 percent at the end of last year. The EU's 0.2 percent growth in the previous quarter was followed by an increase of 0.4 percent in 2024 Q1, while GDP in the euro area also rose by 0.4 percent. Based on the available first-quarter data of 17 EU member states, GDP grew in 11 countries on an annual basis, with the highest increase in Lithuania (+2.9 percent) and the largest decrease was registered in Ireland (-4.9 percent) in this quarter as well. 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 (+0.4 percent), Romania (+1.8 percent) and also in Slovakia (+2.7 percent).

**Monthly industrial production fell in the euro area, stagnated in the US and rose in China.** The volume of retail trade increased by 0.7 percent in the euro area, by 4.0 percent in the USA and by 3.1 percent in China.

**In April, continuing the trend of the previous month, the Purchasing Managers' Index for manufacturing rose in China, while it dropped in the United States and the euro area.** In the USA, the indicator was just at the threshold value of 50.0 points, which represents no change, while in the euro area it was below that value. The index in China exceeded the expansion threshold. The euro area's Economic Sentiment Indicator (ESI) worsened by 0.7 points in April (Chart 1).

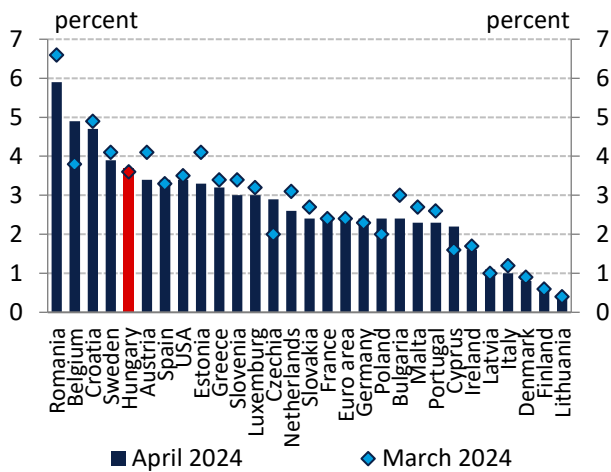
**International labour market developments remained typically favourable in April, too.** In the United States, the unemployment rate rose slightly to 3.9 percent in April from 3.8 percent in March, but this value still remains historically low. The number of US non-agricultural employees increased by 175,000 in April, far below expectations (240,000) and a significant decline from the previous month (315,000). This is the lowest growth rate looking back over the last six months. The unemployment

Chart 1 Business climate indices in Hungary's export markets



Source: European Commission, Ifo

**Chart 2 Developments in the international inflation environment**



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

rate in the euro area was 6.5 percent in March, similar to the February figure.

**Annualised inflation in the United States fell to 3.4 percent in April**, from 3.5 percent in March. **Consumer prices in China rose by 0.3 percent year on year in April**, following a 0.1 percent increase in March. **Eurozone inflation was 2.4 percent year on year**, while **core inflation fell to 2.7 percent in April**. The inflation figure was in line with analysts' expectations, while core inflation was 0.1 percentage point above expectations.

**In April, inflation was mixed in the countries of the region.** Inflation fell to 5.9 percent in Romania, while it rose to 2.4 percent in Poland and 2.9 percent in the Czech Republic. Disinflation has slowed down, 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 last year. Compared to the previous quarter, economic performance expanded by 0.8 percent. In March 2024, the volume of industrial production fell by 10.4 percent and the volume of construction output by 6.3 percent year on year. The volume of retail sales grew by 4.2 percent on an annual basis. Based on preliminary data, trade balance showed a surplus of EUR 1.5 billion in March 2024. In March 2024, the average number of employees aged 15-74 was 4,746,000. The unemployment rate stood at 4.4 percent in March.

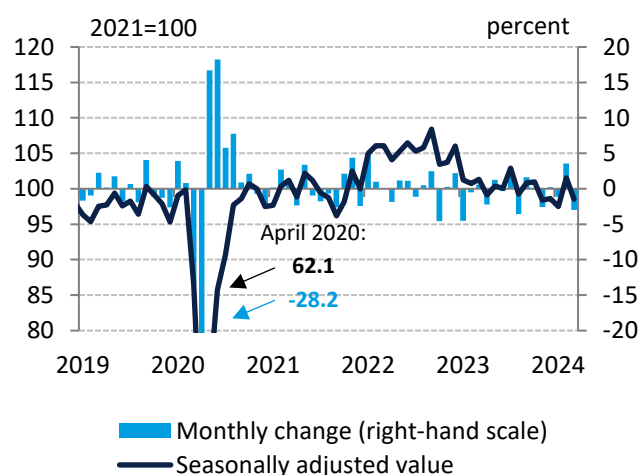
### 1.2.1. Economic growth

**Preliminary data released by HCSO indicate that, in 2024 Q1, Hungary's gross domestic product increased by 1.1 percent, 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 with the previous quarter, economic performance expanded by 0.8 percent. According to the HCSO, the largest contributors to the growth in economic output were market services, mainly real estate transactions and information and communication. At the same time, economic growth was held back by a decline in the value added in industry, which is a major contributor to the national economy as a whole.

**The volume of industrial production fell by 10.4 percent in March 2024, compared with the same period last year.** Based on seasonally and calendar-adjusted data, the rate of decline was 2.9 percent compared to March 2023. 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 March 2023. Industrial output was 3.0 percent lower in March than in February (Chart 3). In March, all manufacturing sub-sectors except mining saw a year-on-year fall in output volumes. Among the most important sub-sectors, the manufacturing in the automotive industry and electrical equipment manufacturing fell significantly, while food, beverages and tobacco production declined to a lesser extent.

**The volume of construction output fell by 6.3 percent year on year in March 2024.** 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 percent compared to February 2024. The volume of new contracts increased by 19.4 percent 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 volume of contracts in the construction sector at the end of March was 3.7 percent lower than in the same period a year earlier. In particular, contracts for the construction of buildings and of other structures were down by 0.7 percent

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

and 6.7 percent, respectively, compared with the same period of the previous year.

**In March 2024, the volume of retail sales rose by 4.2 percent year on year, continuing the growth that started in January.**

Retail trade excluding fuel sales rose by 4.3 percent in March on a calendar-adjusted basis, after a slight increase in February. The annual volume of sales at filling stations increased by 3.3 percent. In March, retail sales were 2.0 percent higher than in February. Retail food trade rose by 5.7 percent on an annual basis in March. In addition, sales also increased in parcel delivery services (+4.2 percent), pharmaceuticals, medicinal products and perfumes (+3.9 percent), miscellaneous industrial goods (+2.3 percent) and books and computers (+1.5 percent). Sales declined in the product groups of textiles, clothing and footwear (-1.9 percent) and in furniture, hardware and ironware (-4.4 percent).

**Based on preliminary data, the trade balance showed a surplus of EUR 1.5 billion in March 2024.** The balance deteriorated by EUR 181 million compared to the previous month and improved by EUR 512 million compared to the equivalent period of the previous year. The balance adjusted for VAT residents increased by EUR 373 million compared to a year earlier, thus showing a surplus of EUR 846 million. In March, the value of exports in euros fell by 14.8 percent on an annual basis. The nominal value of goods imports in euro terms shrank by 19.8 percent over a year. According to seasonally adjusted data, exports increased by 1.3 percent and imports by 0.7 percent compared to February.

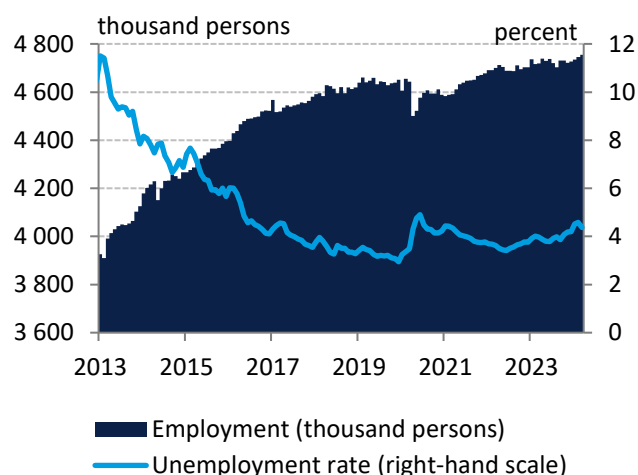
**The NAV's (National Tax and Customs Administration) inflation-adjusted turnover of online cash registers was 3.9 percent higher in March from the same period last year, returning to positive territory after February.** Based on online cash register data, nominal turnover increased by 7.7 percent year on year. In April, trade in goods (+34.1 percent) and passenger air traffic (+6.0 percent) increased, while passenger road traffic (-10.2 percent) decreased. Electrical load fell by 6.5 percent. Cinema admissions decreased by 20.9 percent, while catering turnover increased by 13.3 percent. The number of Google searches for the term "unemployment benefit" rose in April.

#### 1.2.2. Employment

**According to the Labour Force Survey, the average number of workers aged 15-74 equalled 4,746,000 in March 2024, which, seasonally adjusted, is 9,000 higher than in February.**

In the period January 2024 to March 2024, the average number of employed persons was 4 million 725 thousand, which is 29 thousand higher than in the same period of the previous year. In the same period, the average number of

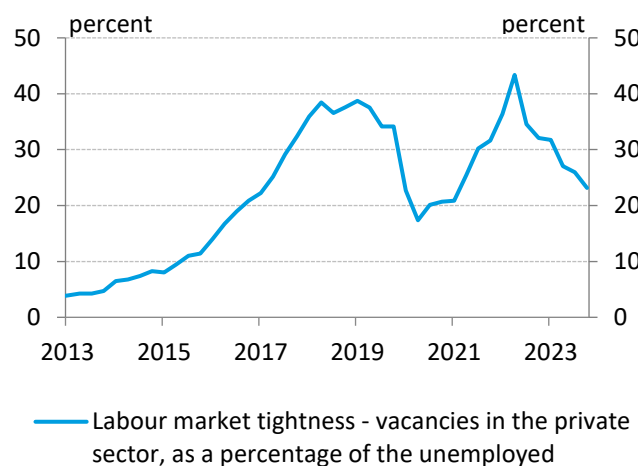
**Chart 4 Number of persons employed and the unemployment rate**



Note: Employment based on seasonally adjusted data.

Source: HCSO

**Chart 5 Labour market tightness indicator**



Note: Seasonally adjusted quarterly data.

Source: HCSO, MNB calculation

persons employed in the primary labour market increased by 27 thousand, the number of persons working at a business unit abroad rose by 8 thousand, while the number of persons in fostered employment decreased by 6 thousand relative to the same period in the preceding year.

**The number of unemployed persons amounted to 217 thousand in March, 22 thousand more than in the same period of the year before. Thus, the overall unemployment rate stood at 4.4 percent** (Chart 4). In March, the seasonally adjusted unemployment rate fell by 6 thousand compared to February. According to raw data from the National Employment Service (NFSZ), there were 236,000 registered jobseekers in Hungary in March 2024 and 231,000 in April 2024. This represents a decrease of 8 thousand and 5 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 April 2024 compared with March; however, it continues to be lower than in the months before the outbreak of the coronavirus pandemic.

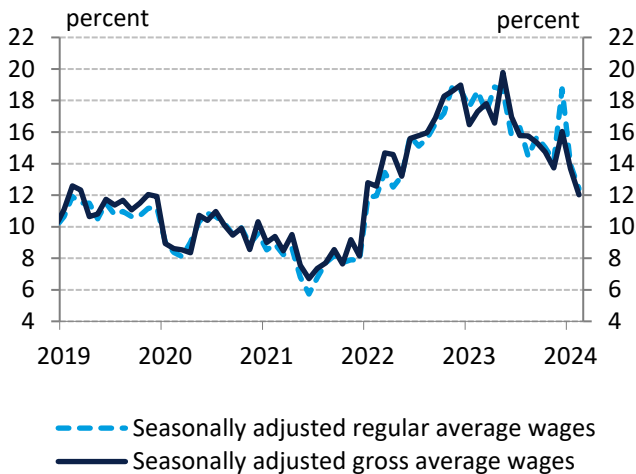
**The labour market has become less tight in recent months** (Chart 5). There were 49,000 vacancies in the private sector in 2023 Q4, 16.3 percent fewer than in the equivalent quarter of the previous year and 8.7 percent fewer compared to the previous quarter. Labour demand in both manufacturing and market services fell compared to the previous quarter. In manufacturing, there were 2.6 thousand fewer job vacancies than in the third quarter. In the market services sector, there were 30.3 thousand job vacancies in 2023 Q4, 1.5 thousand fewer than in the previous quarter. In the public sector, demand for labour increased slightly compared to the previous quarter.



### 1.3. Inflation and wages

In April 2024, consumer prices rose by 3.7 percent year on year. Core inflation and core inflation excluding indirect tax effects continued to fall with both indicators moderating to 4.1 percent. Incoming data were essentially consistent with analysts' expectations. In February 2024, average regular wages (excluding bonuses) rose by 14.4 percent in the national economy and by 13.2 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

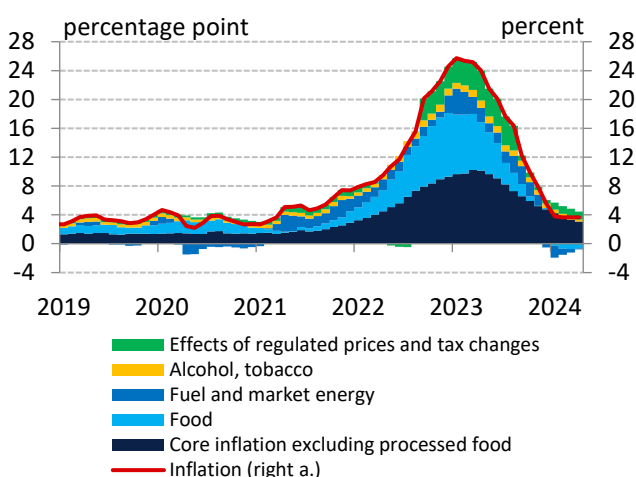
#### 1.3.1. Wages

**In February 2024, average gross earnings in the national economy rose by 14.0 percent and in the private sector by 12.8 percent compared with the same period in 2023.** Average regular earnings (excluding bonuses) rose by 14.4 percent in annual terms in the national economy and by 13.2 percent in the private sector. Regular earnings rose by 0.1 percent on a monthly basis, below last year's rate but close to the historical rate. Bonus payments were 6 percent of regular wages, down from previous years.

**According to seasonally adjusted data, the annual growth in gross average wages accelerated, while regular average wage dynamics slowed down in the private sector compared to the previous month** (Chart 6). In the private sector, wage dynamics in manufacturing exceeded the dynamics observed in market services. Wages in manufacturing were 13.5 percent higher in February compared with the same period last year, based on raw data. With regard to market services, the Hungarian Central Statistical Office registered an increase of 12.1 percent. As for the sectors of the national economy, wages in construction grew by 16.2 percent, by 14.3 percent in tourism and by 11.8 percent in trade compared with the same period of the previous year.

#### 1.3.2. Inflation developments

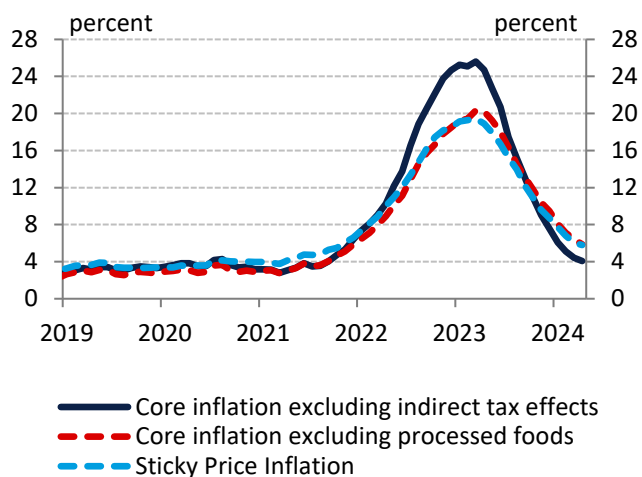
Chart 7 Decomposition of inflation



Source: MNB calculation based on HCSO data

**In April 2024, consumer prices rose by 3.7 percent year on year** (Chart 7). Core inflation and core inflation net of indirect taxes continued to fall, both indicators moderating to 4.1 percent. In monthly terms, the price of the representative consumer basket rose by 0.7 percent, and in the case of core inflation it rose by 0.8 percent. The annualised consumer price index increased by 0.1 percentage points relative to the previous month. Fuels (+0.3 percentage points) and food (+0.2 percentage points) contributed to the rise in inflation, partly offset by the disinflationary effect of industrial goods (-0.3 percentage points). Annual core inflation fell by 0.3 percentage point, with industrial goods supporting disinflation. The annual inflation rate for industrial goods fell to 1.7 percent, while the annual basis price index for market services remained unchanged at 10.2 percent. Within the food segment, unprocessed food prices fell by 0.7 percent and processed food prices by 2.9 percent year on year. Fuel inflation stood

Chart 8 Measures of underlying inflation indicators



Source: MNB calculation based on HCSO data

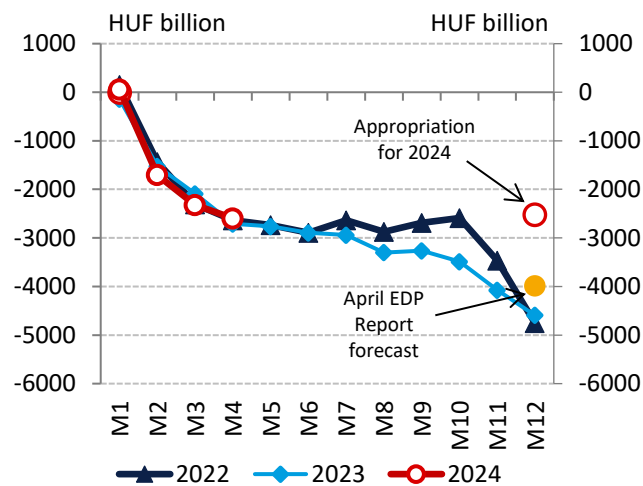
at 6.6 percent on an annual basis. The annual price index for goods and services with regulated prices was 3.2 percent. The incoming data were in line with analysts' expectations. The median equalled 3.7 percent with expectations ranging from 3.5 to 4.0 percent.

**The MNB's annualised indicators, which capture more persistent inflation trends, declined in April.** Inflation for sticky-price goods fell by 0.3 percentage points, and annual core inflation excluding processed food decreased by 0.5 percentage points compared to the previous month (Chart 8).

### 1.4. Fiscal and external balance trends

The central sub-sector of general government closed April with a deficit of HUF 276 billion, which represents a HUF 344 billion improvement compared to the deficit in the fourth month a year earlier. In March 2024, the current account surplus amounted to EUR 1,041 million. The monthly current account balance reached a record level again after the previous month, mainly driven by high surpluses in the goods balance and in current transfers.

**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 general government closed April with a deficit of HUF 276 billion**, which represents a HUF 344 billion improvement compared to the deficit in the fourth month a year earlier. This brought the cumulative deficit from the start of the year to HUF 2,597 billion at the end of April (Chart 9).

**Central sub-sector revenues** increased by HUF 228 billion on an annual basis in April, mainly driven by a HUF 143 billion rise in labour taxes and contributions, HUF 28 billion higher VAT revenues and HUF 57 billion higher motor vehicle tax revenues.

**Budget expenditures** in April were HUF 116 billion lower than in the same period of the previous year. The decrease is mainly due to a HUF 198 billion reduction in public transport and utilities spending and a HUF 216 billion reduction in EU payments. The lower spending was partly offset by an increase of nearly HUF 100 billion in expenditures on medical and preventive care and about HUF 50 billion in pension expenditure compared to April last year.

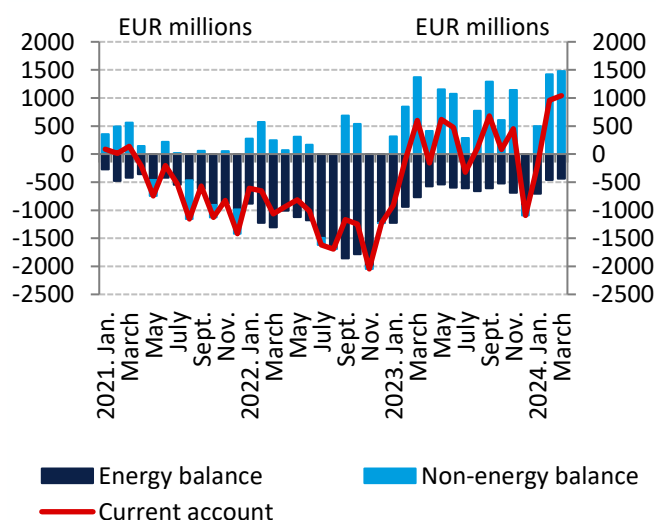
#### 1.4.2. External balance developments

**The current account surplus reached EUR 1,041 million in March 2024, and net lending equalled EUR 1,181 million** (Chart 10). The monthly current account balance reached a record level again after the previous month, mainly driven by high surpluses in the goods balance and in current transfers. The year-on-year decline in exports, mainly the result of subdued European activity and fewer working days in March this year, continued to be outweighed by a fall in imports, also supported by lower energy prices. In March, the surplus on the services balance remained close to the level of a year earlier, while the deficit on the income balance increased slightly compared with February. The transfer balance also increased, in line with an increase in EU funds.

**Financial account data show that net FDI inflows increased in March, with a significant reduction in net external debt.**

The high level of foreign investment in Hungary was behind net FDI inflows of around EUR 0.7 billion. The reduction of EUR 1.8 billion in net external debt resulting from transactions was mainly related to the banking system and to a lesser extent to the corporate sector.

**Chart 10 Developments in current account and energy balance**



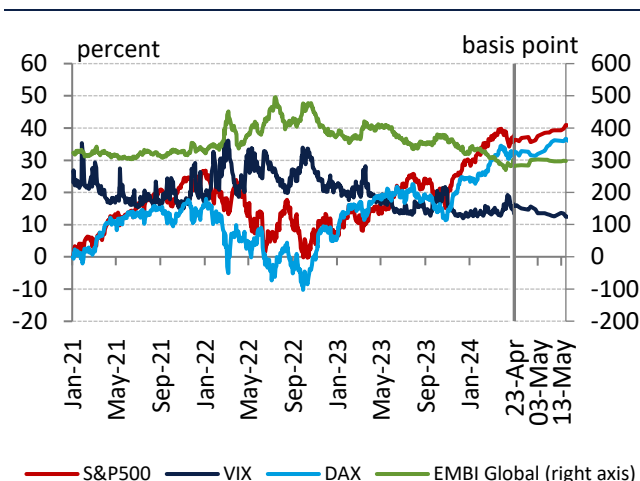
Note: The last monthly value of the energy balance is an estimate.  
Source: MNB, HCSO

## 2. Financial markets

### 2.1. International financial markets

International risk appetite improved since the April interest rate decision, as uncertainty about the future interest rate policies by the world's leading central banks declined. Developed market equity indices rose, long-term government bond yields were mixed, and the composite emerging market bond spread increased.

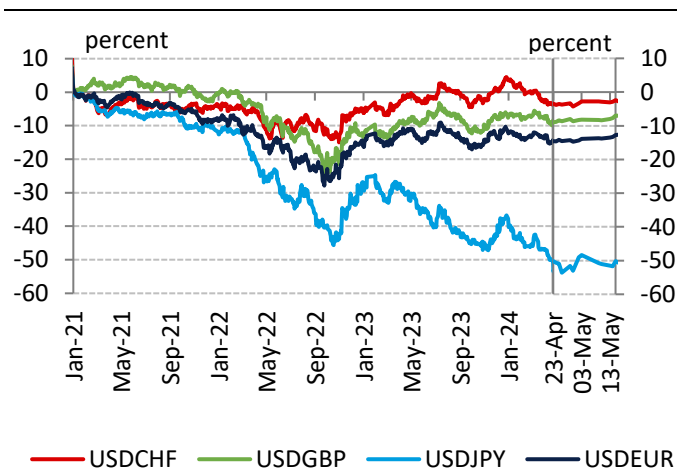
Chart 11 Developed market equity indices, the VIX index and the EMBI Global Index



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 improved since the April interest rate decision**, as uncertainty about the future interest rate policy of major central banks declined. Of the risk indicators, the VIX index, the key measure of US equity market volatility, decreased by 3 percentage points. However, the EMBI index, which captures emerging market bond spreads, rose (Chart 11).

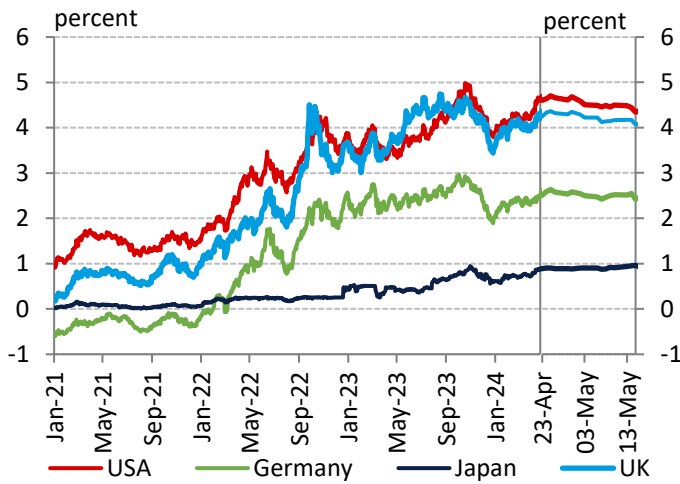
**Developed and emerging market stock exchange indices rose over the period.** The leading US stock indices were up 3-4 percent, while European indices were up 1-3 percent. Among Asian indices, Japan's Nikkei was up 2 percent, while Chinese indices rose 4-13 percent. The MSCI index, which tracks emerging market stock exchanges, rose by 5 percent.

**The dollar weakened slightly against the major currencies** (Chart 12). The dollar weakened by 1 percent against the euro, Swiss franc and British pound, while it strengthened by 0.5 percent against the Japanese yen, amid high volatility.

**Developed market long yields have been mixed since the previous interest rate decision** (Chart 13). The US 10-year yield fell by 10 basis points since the previous interest rate decision, while the German long yield rose by 2 basis points. Ten-year government bond yields in the countries of the region fell, with Hungarian yields down by 20 basis points, Czech and Polish by 15 basis points and Romanian by 5 basis points.

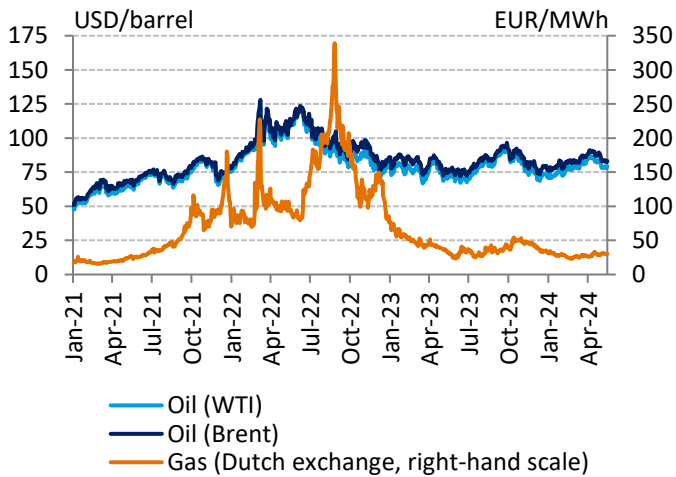
**Oil prices moderated, while European gas prices stagnated.** The price of Brent and WTI oil both fell by 7.5 percent to near USD 83 and USD 79 respectively. European gas prices were close to EUR 30/MWh (Chart 14). The Dow Jones Composite Commodity Index rose by 0.8 percent over the period. The rise is largely explained by higher prices for industrial metals. Prices of agricultural products were mixed.

Chart 13 Yields on developed market long-term bonds



Source: Bloomberg

Chart 14 Developments in oil and gas prices since January 2021

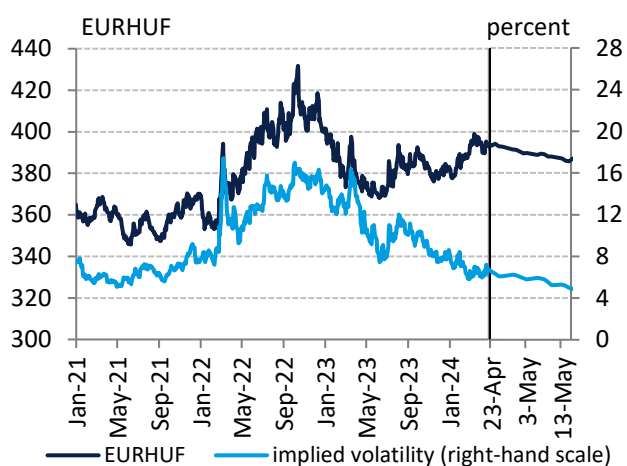


Source: Bloomberg

## 2.2. Developments in domestic money market indicators

The forint has appreciated against the euro since the April interest rate decision. The government securities market's yield curve has shifted downwards. The 3-month BUBOR has fallen by 29 basis points to 7.36 percent.

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



Source: Bloomberg

**The forint has appreciated against the euro since the April interest rate decision** (Chart 15). On the day of the April interest rate decision, the forint strengthened moderately, by 0.3 percent. Thereafter, the forint continued to strengthen steadily and with low volatility until the end of the period, with the EUR/USD exchange rate reaching 387, an overall appreciation of 1.7 percent. In addition to the favourable international investor sentiment, the appreciation of the forint was also supported by the domestic April inflation, which developed in line with expectations, and strong retail trade data. Regional currencies also typically strengthened over this period, with the Czech koruna appreciating by 1.6 percent and the Polish zloty by 0.6 percent. The Romanian leu was stable against the euro.

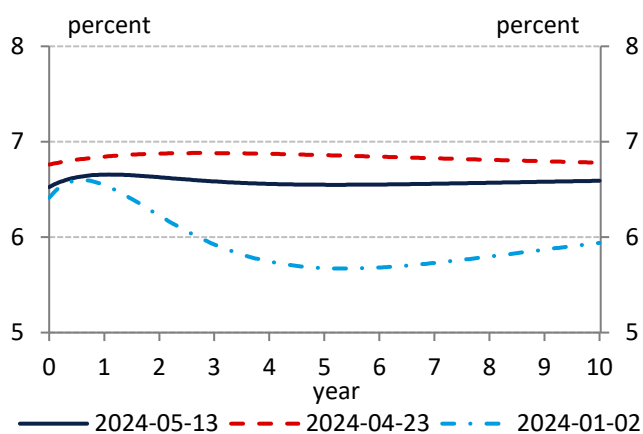
**The 3-month BUBOR, which is relevant to monetary transmission, has fallen by 29 basis points since the previous interest rate decision to 7.36 percent.**

**Since the last interest rate decision, the entire yield curve of the government bond market has shifted downwards** (Chart 16). The inter-year section of the yield curve moved down by 20 to 25 basis points and the section outside the year moderated by 5 to 30 basis points.

**Since the previous interest rate decision, demand has been strong in both discount treasury bill auctions and government bond auctions.** During the period under review, the Government Debt Management Agency accepted bids above the pre-announced volumes in almost all of the discount treasury bill and government bond auctions.

**Non-residents' holdings of forint government securities decreased.** Non-residents' holdings shrank by HUF 105 billion to HUF 6,810 billion. As a result, the market share of forint government securities held by foreigners stood at 18.9 percent.

**Chart 16 Shifts in the spot government yield curve**

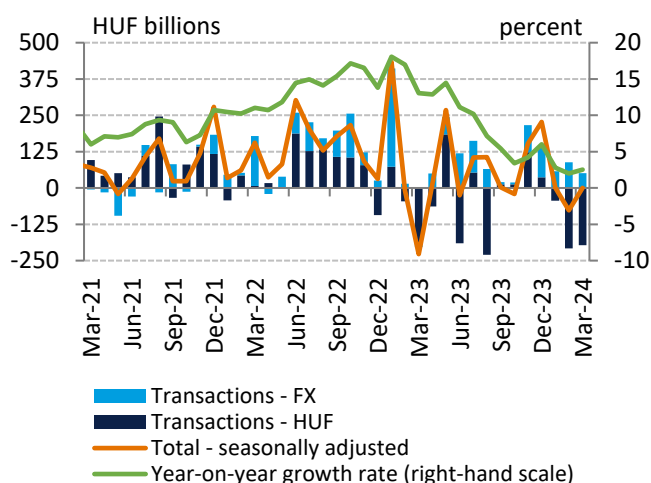


Source: Bloomberg

### 3. Trends in lending

Non-financial corporations' loans outstanding declined in March 2024. Outstanding household loans continued to grow at a faster pace, compared to the corporate sector. The smoothed interest rate spreads on forint corporate loans rose moderately.

Chart 17 Net borrowing by non-financial corporations



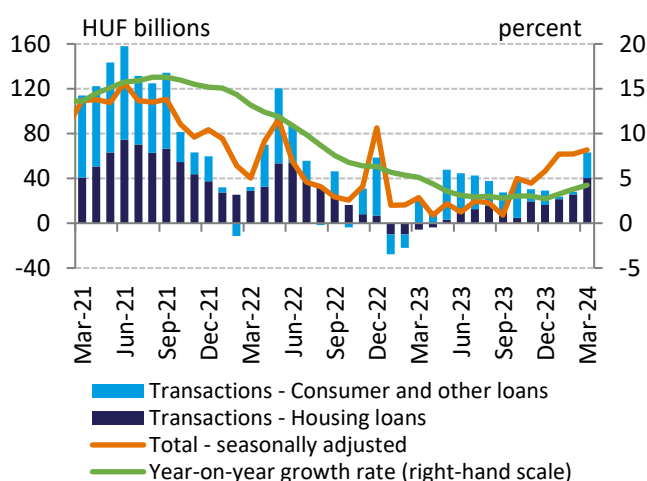
Source: MNB

Corporate loans decreased by HUF 147 billion in March 2024, due to a HUF 198 billion decrease in forint lending and a HUF 51 billion increase in foreign currency loans (Chart 17). The annual growth rate of loans accelerated to 2.5 percent from 2.0 percent in February. Credit institutions contracted new non-overdraft loans in an amount of HUF 155 billion during the month, which is 49 percent lower than in the same period last year, which was an intensive contracting period of the Gábor Baross Reindustrialisation Loan Programme.

Household lending increased by HUF 63 billion due to transactions in March 2024, raising the annual growth rate of the stock to 4.2%, up by 0.4 percentage points from February (Chart 18). Due to the low base, the HUF 196 billion volume of new household loan contracts was 56 percent higher than in the same period last year, and the value of newly contracted housing loans rose by 136 percent year on year compared to the low level in March last year. The HPS Plus programme, available since January, saw around 1,000 contracts signed in March, worth HUF 23 billion, accounting for 23 percent of housing loan issuance in the month.

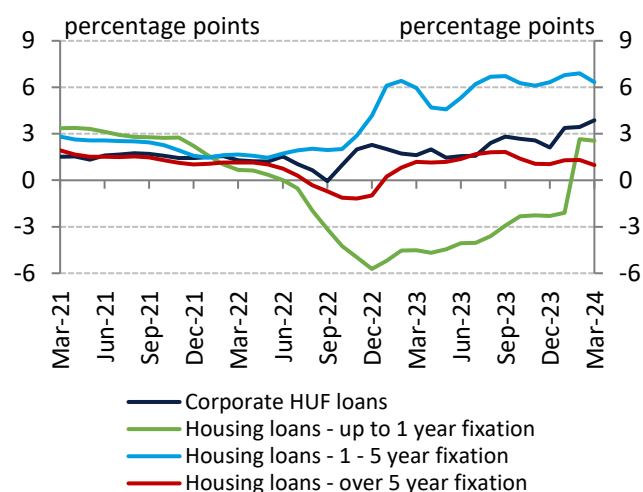
The smoothed interest rate spread on corporate forint loans increased moderately, by 43 basis points from the previous month, and was amounted to 3.87 percentage points in March 2024 (Chart 19). As for housing loans, the spread on products with a fixed interest rate beyond 5 years decreased by 32 basis points to 0.98 percentage points at the end of the period.

Chart 18 Net borrowing by households



Source: MNB

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