

HUNGARY | MACRO OUTLOOK

GDP to grow just 2% annually in 2024 Temporary acceleration of rate cuts No room for yield drops Forint to stabilize in weaker range

| Economy (%) | 2023 | 2024e | 2025e |
|--------------------|------|-------|-------|
| GDP (real, y/y) | -0.9 | 2.0 | 3.4 |
| Unempl. Rate | 4.0 | 3.9 | 3.6 |
| CPI (y/y) | 17.6 | 4.7 | 4.0 |
| Retail Sales (y/y) | -7.9 | 4.0 | 4.2 |
| Ind. Prod. (y/y) | -5.5 | 2.7 | 5.5 |
| Public Debt/GDP | 73.5 | 73.1 | 72.1 |

Source: Erste Group Research

| Market | Spot | 24Q2 | 24Q3 | 24Q4 |
|-----------------|-------|-------|-------|-------|
| EUR/HUF | 394.4 | 390.0 | 390.0 | 390.0 |
| | 5 | 0 | 0 | 0 |
| USD/HUF | 361.0 | 354.5 | 348.2 | 348.2 |
| | 5 | 5 | 1 | 1 |
| Target Rate (%) | 9.00 | 6.50 | 6.50 | 6.50 |
| 3M Rate (%) | 8.10 | 6.60 | 6.60 | 6.60 |
| 5Y Bond (%)* | 6.07 | 5.90 | 5.97 | 6.03 |
| 10Y Bond (%)* | 6.16 | 6.34 | 6.23 | 6.14 |

Source: FactSet, Erste Group Research

| Rating | Current | Outlook |
|--------|---------|---------|
| Moodys | Baa2 | stable |
| S&P | BBB- | stable |
| Fitch | BBB | neg |

Source: Erste Group Research

| General | 2023 |
|----------------|--------|
| Population mn | 9.6 |
| GDP/Capita EUR | 21,202 |

Source: Erste Group Research

Spot Rates as of:

11th Mar. 2024

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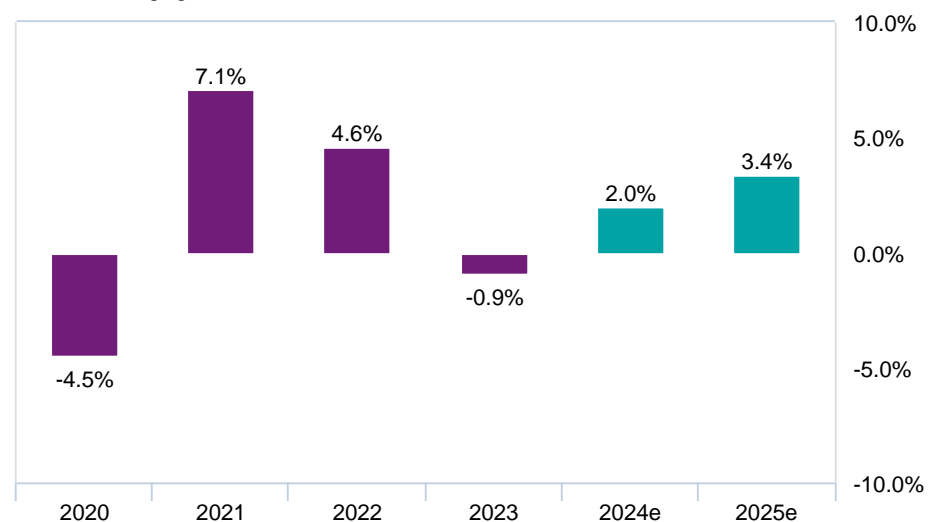
*Information on past performance is not a reliable indicator for future performance. Forecasts are not a reliable indicator for future performance.

The economic rebound stumbled at end-2023, while, according to the latest available statistics, there is no sign of a relevant improvement so far this year. Following the annual GDP decline of 0.9% last year, the economy is set to grow in 2024; however, the rebound should be much slower than earlier thought. We cut our forecast for this year's annual GDP growth to 2%.

Uncertainties remain high, as prospects will strongly depend on the timing of any global economic revival. Inflation continued to quickly decline in the last couple of months, and the 12-month headline CPI rate returned to the MNB's tolerance range of 2-4% at the beginning of the year.

Reaching the CPI target is just temporary, however, and inflation rates are set to rise again in 2Q24. This justifies a cautious shift of the monetary policy expected from April. The policy rate could still be reduced to 6.50% by end-June; however, room for the continuation of monetary easing in 2H24 is limited. More cautious monetary policy steps should help in the stabilization of the forint exchange rate, which has become more vulnerable, as a result of declining carry, the worsening balance of trade and increased political noise.

GDP (real,y/y)



Source: Erste Group Research

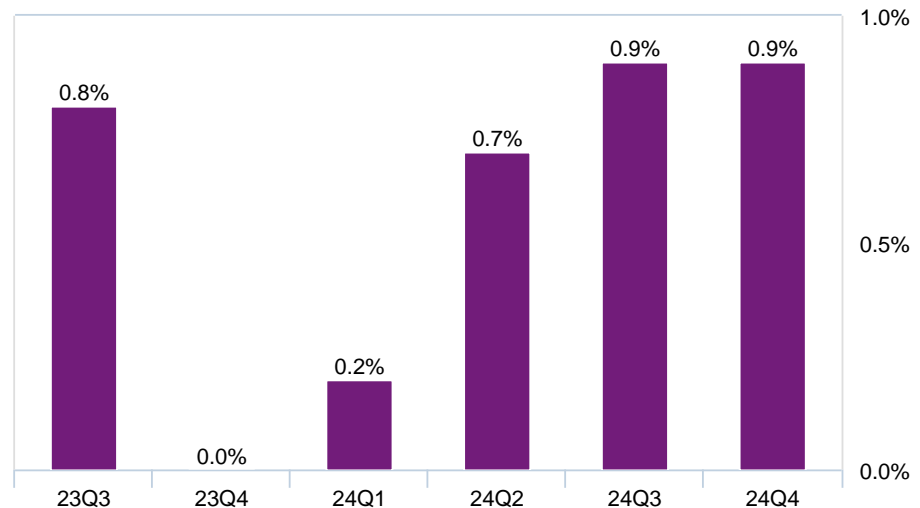
GDP

GDP to grow just 2% annually in 2024

In 4Q23, the economy stagnated on both the quarterly and yearly levels. The weak performance of industry and still subdued domestic demand were the main culprits. Industry and services plummeted by 6.4% and 1% y/y, respectively. On the other hand, agriculture rose by 81.1% y/y, protecting the economy from a much bigger fall. On the final use side, households' final consumption managed to slightly increase, by 1% y/y; however, investments dropped by 3% y/y. Regarding external trade processes, exports declined by 4.7% y/y, with imports dropping by 9% y/y. Thus, the contribution of net exports to GDP remained positive (4.1 percentage points).

On the back of real wage growth, lower inflation and continued monetary easing, the contribution of domestic factors is set to be stronger this year. Due to the still strong precautionary motivation among households - stemming from the huge inflation-led welfare losses experienced in the past years - the revival of consumption should only be gradual. Meanwhile, the weakness of the external environment remains a relevant risk, hampering the prospects of industrial exports. We expect the economy to grow just 2% annually in FY24.

GDP (real, s.a., q/q)



Source: Erste Group Research

| Annual | 2021 | 2022 | 2023 | 2024e | 2025e |
|---------------------|------|-------|-------|-------|-------|
| GDP real | 7.1% | 4.6% | -0.9% | 2.0% | 3.4% |
| CPI (y/y) | 5.1% | 14.5% | 17.6% | 4.7% | 4.0% |
| Private Consumption | 4.0% | 6.4% | -1.2% | 2.4% | 3.0% |

Source: Erste Group Research

Inflation

Inflation back to tolerance range

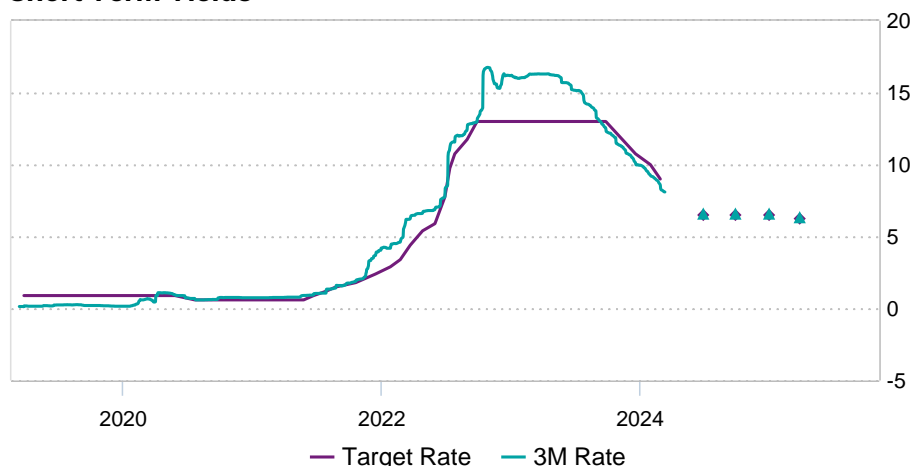
The disinflation process continued at the beginning of the year, with the 12-month headline rate slowing to the MNB's 2-4% tolerance range. The current fast disinflation should run out of steam in spring, however. The base effect should become rather unsupportive, while the expected improvement of internal demand and the strong need for some kind of fiscal consolidation should create additional inflation risks later the year. We expect the headline inflation rate to permanently stabilize in the MNB's tolerance range only in 2025.

Monetary Policy

Temporary acceleration of rate cuts

The MNB reduced the policy rate by 100bp to 9% in February. Lower inflation figures, the weak state of the real economy and positive developments in Hungary's risk assessment enabled the MNB to temporarily accelerate the pace of rate cuts. However, we expect a slowdown of the monetary easing process in 2Q24, at the latest. The disinflation is to come to a halt, while risk assessment may be to a greater extent affected by poor budget processes. The policy rate is set to stand at 6.50% at end-June. Any room for further monetary easing in 2H24 is limited, especially given the longer-lasting strict monetary policy of major central banks.

Short Term Yields



Source: FactSet, Erste Group Research

| Market (%) | Spot | 24Q2 | 24Q3 | 24Q4 | 25Q1 |
|-------------|------|------|------|------|------|
| Target Rate | 9.00 | 6.50 | 6.50 | 6.50 | 6.25 |
| 3M Rate | 8.10 | 6.60 | 6.60 | 6.60 | 6.35 |

Source: FactSet, Erste Group Research

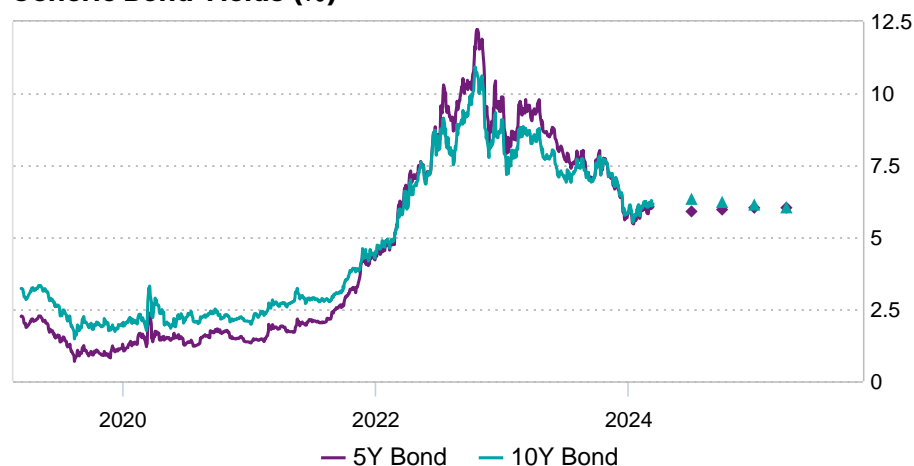
Bond Yields

No room for yield drops

Expectations for more MNB rate cuts, coupled with some other factors (the risk-on mode of markets, EU fund development), led to a spectacular bond rally, with 10Y reference yields dropping well below 6% at end-2023. The spread over the 10Y German Bund yield declined below 400bp. The domestic bond market had become overbought; thus, it was not a surprise that the new year brought some upward correction of yields. Since then, sideways movements of yields can be seen on the domestic bond market.

We continue to think that domestic fundamentals do not really justify any relevant yield drop. The disinflation process may come to a halt soon, while the ongoing fiscal overshooting brings even more uncertainties. The fiscal situation suggests that the state will have much higher financing needs than was planned by the ÁKK at the end of last year. The financing plan contains subdued HGB supply that might be increased later the year, suggesting a moderate upward correction of yields.

Generic Bond Yields (%)



Source: FactSet, Erste Group Research

| Market | Spot | 24Q2 | 24Q3 | 24Q4 | 25Q1 |
|-----------|------|------|------|------|------|
| 5Y Bond* | 6.07 | 5.90 | 5.97 | 6.03 | 6.03 |
| 10Y Bond* | 6.16 | 6.34 | 6.23 | 6.14 | 6.05 |

Source: FactSet, Erste Group Research

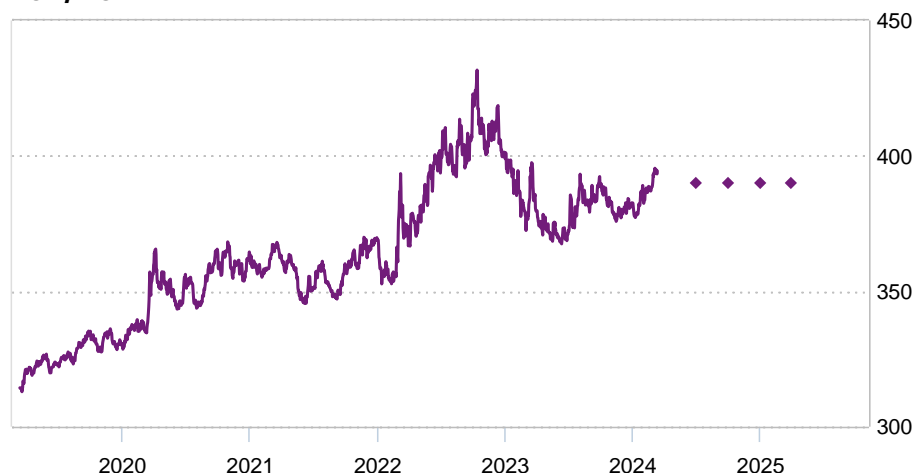
Forint

Forint to stabilize in weaker range

The EURHUF had been trading around 380 for a longer period, but, so far this year, the forint has been on a weakening path again with higher volatility. Geopolitical tensions and the temporary increase in the pace of rate cuts have been the most crucial factors behind the weakening. One should add, however, that increased political noise and the continuous tensions between the government's representatives and central bank related to the desirable pace of monetary easing have not supported the forint, either.

We see the state of the forint exchange rate more fragile now. The short-term growth outlook has not improved yet, and due to the weak export performance, concerns about the sustainability of a relevant foreign trade surplus - which is supporting the forint - have also increased. From 2Q24, however, we expect a more cautious approach from the MNB regarding rate cuts, which should help the exchange rate consolidate again. We still increased our point estimate for the EURHUF to 390.

EUR/HUF



Source: FactSet, Erste Group Research

| | Spot | 24Q2 | 24Q3 | 24Q4 | 25Q1 |
|----------------|--------|--------|--------|--------|--------|
| EUR/HUF | 394.45 | 390.00 | 390.00 | 390.00 | 390.00 |
| vs. Spot | | -1.1% | -1.1% | -1.1% | -1.1% |
| USD/HUF | 361.05 | 354.55 | 348.21 | 348.21 | 339.13 |
| vs. Spot | | -1.8% | -3.6% | -3.6% | -6.1% |

Source: FactSet, Erste Group Research

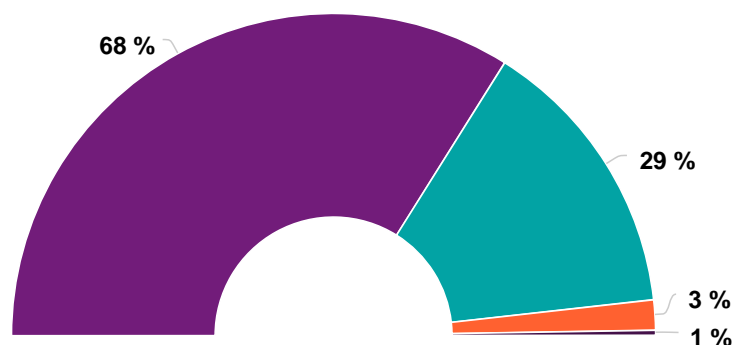
Politics

Curbing deficit to remain challenge

In 2023, the CF-based fiscal deficit reached HUF 4,593bn, significantly exceeding the original deficit target. The accrual-based deficit could have been around 6.5% of GDP, even higher than in 2022. Permanent fiscal problems are mainly related to the shortfall of consumption-related tax revenues and the relevant increase in debt service costs. This year so far has not brought any improvement, as, in February, the YTD deficit reached HUF 1,704bn, almost 68% of the original CF-based deficit target.

The budget law contains an ESA-based deficit target of 2.9% of GDP for 2024. As this has quickly become unrealistic, even the government has talked about a 4.5% of GDP deficit goal recently. This would also imply a higher CF-based deficit target; however, there has not been any announcement on it yet. In addition, reaching the higher deficit target requires adjustment measures, as well.

Parliament Seats



- Fidesz-KDNP | centre-right
- United Opposition | mixed
- Our Homeland | far-right
- A German minority representative | -

Source: Erste Group Research

Last Election:
2022 Q2

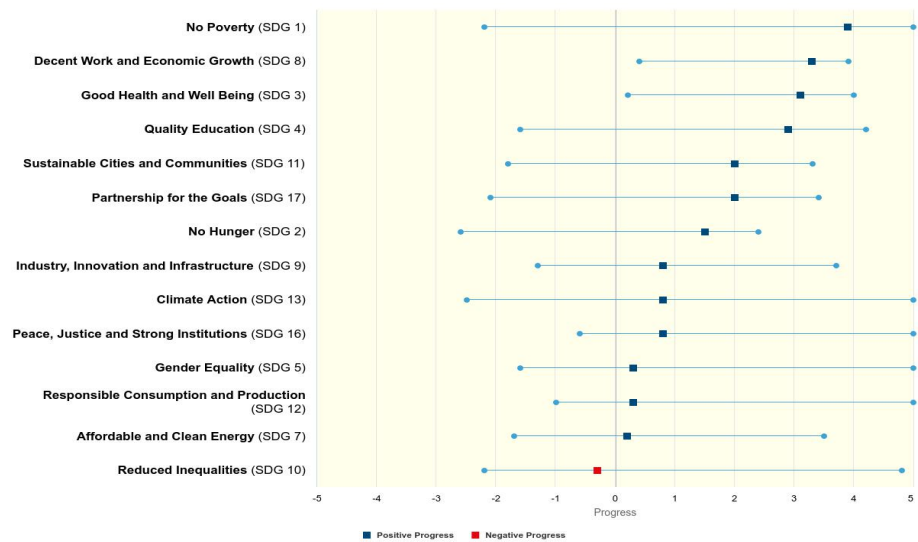
Next Election:
2026 Q2

Sustainable Development Goals

Achieving environmental goals remains major challenge

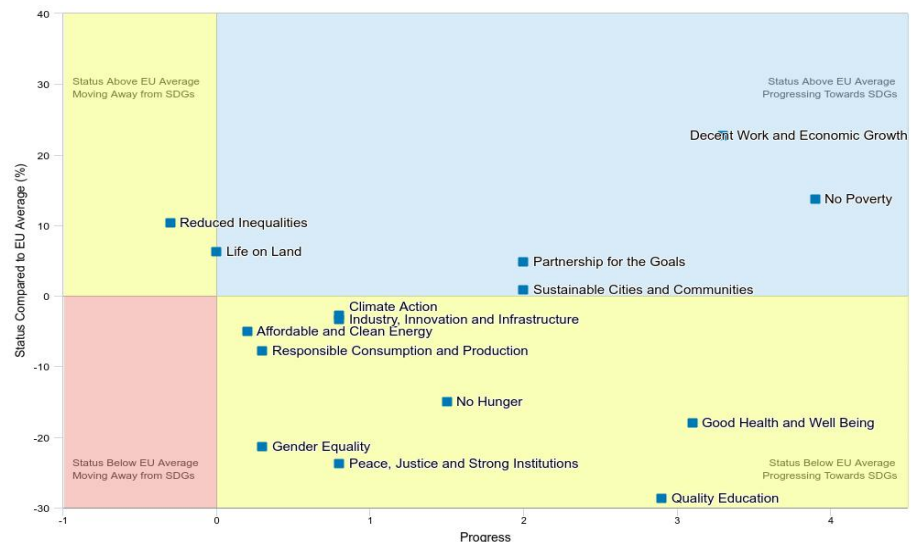
In the majority of SDG segments, Hungary is below the EU average. However, the progress has been positive recently. It is favorable that there is no area in which the Hungarian status is below the average and is moving away from the SDG at the same time. The most relevant progress has been achieved in the fields of 'Reducing poverty', 'Decent work and economic growth' and 'Good health and well being'. The topics of 'Affordable and Clean Energy' coupled with 'Climate Actions' and 'Responsible Consumption and Production' have remained challenges for Hungary.

Progress Overview



Source: Erste Group Research

Progress Overview



Source: Erste Group Research

Forecasts

| Annual | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024e | 2025e |
|---------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| Real GDP growth | 5.4 | 4.9 | -4.5 | 7.1 | 4.6 | -0.9 | 2.0 | 3.4 |
| Inflation (CPI, avg) | 2.8 | 3.4 | 3.3 | 5.1 | 14.5 | 17.6 | 4.7 | 4.0 |
| Unemployment rate (avg) | 3.5 | 3.3 | 4.1 | 4.0 | 3.6 | 4.0 | 3.9 | 3.6 |
| Retail sales growth | 6.7 | 6.3 | -0.2 | 3.7 | 5.1 | -7.9 | 4.0 | 4.2 |
| Industrial output growth | 3.5 | 5.6 | -6.0 | 9.5 | 6.1 | -5.5 | 2.7 | 5.5 |
| Private consumption growth | 4.1 | 4.5 | -1.8 | 4.0 | 6.4 | -1.2 | 2.4 | 3.0 |
| Fixed capital formation growth | 16.3 | 12.8 | -7.1 | 5.8 | 0.1 | -8.7 | 3.2 | 4.5 |
| Percent of GDP | | | | | | | | |
| Trade balance | -1.7 | -2.5 | -1.0 | -2.9 | -9.0 | 0.3 | 0.5 | 0.9 |
| Current account balance | 0.2 | -0.8 | -1.1 | -4.2 | -8.2 | 0.2 | 0.7 | 1.1 |
| Foreign direct investment | 3.5 | 3.7 | 1.7 | 0.5 | 4.0 | 2.7 | 2.9 | 2.3 |
| Budget balance | -2.1 | -2.0 | -7.6 | -7.2 | -6.2 | -6.5 | -5.0 | -4.1 |
| Public debt | 69.1 | 65.3 | 79.3 | 76.7 | 73.9 | 73.5 | 73.1 | 72.1 |
| External debt, gross | 79.2 | 73.1 | 81.1 | 84.9 | 89.0 | 87.5 | 88.4 | 87.2 |
| FX, money market | | | | | | | | |
| USDLCY average | 270.25 | 290.65 | 307.93 | 303.29 | 373.12 | 353.20 | 353.34 | 339.13 |
| EURLCY average | 318.87 | 325.35 | 351.17 | 358.52 | 391.33 | 381.69 | 391.25 | 390.00 |
| EURLCY eop | 321.51 | 330.52 | 365.13 | 369.00 | 400.25 | 382.78 | 390.00 | 390.00 |
| (percent) | | | | | | | | |
| CB policy rate (avg.) | 0.90 | 0.90 | 0.76 | 1.11 | 8.07 | 12.77 | 7.60 | 6.00 |
| 3m interbank offer rate (avg.) | 0.12 | 0.19 | 0.69 | 1.39 | 9.97 | 14.35 | 7.40 | 6.10 |
| 2Y Yield (average)* | 1.26 | 0.82 | 1.04 | 2.04 | 8.53 | 9.02 | 6.12 | 5.91 |
| 5Y Yield (average)* | 2.16 | 1.58 | 1.51 | 2.38 | 8.14 | 8.00 | 5.95 | 5.91 |
| 10Y Yield (average)* | 3.06 | 2.47 | 2.23 | 3.07 | 7.59 | 7.51 | 6.24 | 5.90 |

Source: Erste Group Research

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