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No. 2. 2024

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I. The World Economy

The OECD has revised its **global growth** forecast slightly upward, to 3.1% in 2024 and 3.2% in 2025. Monetary policy is still the main obstacle to growth, even though some degree of monetary easing has already started – or will start later this year. The downward effect of strict lending conditions is the most visible in the real estate and housing sectors. Real household incomes are rising, due to the disinflation, which may give a boost to consumption. The fiscal policy is still heavily constrained by the high levels of public debt thus the budgetary and monetary environment is likely to remain restrictive during the forecast period.

Global trade growth decelerated to a symbolic rate of 0.3% in 2023, and it is likely to remain moderate – about 3% – in 2023-2024. The growth prospects are clouded by weak consumption demand in China, the USA and the EU, specifically by the drop in demand for electric vehicles. The trade policy tensions keep rising: the EU has imposed import tariffs on electric vehicles made in China, and China in turn reacted by new tariffs on various food products. The EU strives to decrease its dependence on China, which may make India a potential alternative location for European firms to relocate their value chains.

The **energy commodity index** reached 103.76 in June, slightly up from the 102.2 registered in February. The **non-energy commodity index** has risen as well, from 107.35 in February to 113.62 in June. (2010=100) while the **global commodity index** hit 107.02 in June, from 103.91 in February. In short, a clear upward trend in the case of non-energy commodities and a tentative upward trend in the case of energy commodities has been observed in recent months.

The **Brend oil price**, after fluctuating around 84 USD per barrel in mid-June, has climbed to 87 USD by the end of June. The average price level in the first half of the year was 83.8 USD per barrel, somewhat above the annual average in 2023. (82 USD). The OPEC+ countries extended the cuts until the end of 2025. We expect an average yearly oil price of 86-88 USD per barrel for this year.

The **European gas market** is still marred by uncertainties. Decoupling from Russia is not an easy task. On the whole, gas prices have tended slightly upward since March in both the European and the US markets.

The prices of several **non-energy commodities** have been sharply rising, due to climate change and speculation. Coffee and cocoa prices have doubled, the price of cocoa is now higher than the price of crude oil. The price of gold, usually a safe haven for investors in times of weak conjuncture, has reached record highs as well. The price surge will be probably felt by consumers in the developed countries, and the prospect of normalization is murky at best since the next year's yields are in danger, due to the extreme weather conditions.

Due to the easing of inflationary pressures, **monetary easing** has started in various countries, even if at a tentative pace. Among the G7 countries, the central bank of Canada was the first to cut the policy rate. The *ECB* was next but the FED is not expected to start the rate cut cycle before September. This suggests that the monetary conditions will ease at a slower pace than previously expected, proceeding in fits and starts, because

the economic prospects are hard to assess and in most countries the labor markets have remained considerably tight, resulting in strong wage pressure.

Outside the European Union, the picture has remained mixed. The **US** economy continues to grow but there are clear signs of deceleration, mostly due to the weakening of private consumption. We expect the GDP to grow by 2.2-2.6% this year, with a likely deceleration to 1.8-2% in 2025. In **Japan**, economic growth is expected to soften to 0.5% this year, followed by a slight strengthening to about 1% in 2025. GDP growth will remain sluggish in the **UK**, with a 0.4% growth in 2024 and roughly 1% next year. The British monetary stance has remained strict so far, but a cautious easing is likely to begin from August.

After the release of Q1 data, the international organizations revised their 2024 growth forecast for **China** upward, to 4.9-5%. The real estate market adjustment still continues, but consumption growth is expected to remain stable. To buttress domestic demand and support steady economic growth, China announced a large-scale equipment upgrade program.

In the wake of Russia's attack on Ukraine, the **China-Russia trade flows** have reached unprecedented proportions. Especially for Russia, China became a principal trade partner: 36.5% of Russian imports came from China while 30.5% of Russian exports were destined for China.

The **euro are GDP** climbed 0.1% In the first quarter of this year, on an annual basis. Investments decreased on both a year-on-year and a quarter-on-quarter basis, thus becoming the main limiting factor regarding economic growth. The outlook is still mixed: the sentiment indicators have slightly improved, but manufacturing keeps declining. Due to continuing disinflation and rising wages, consumption is expected to gather steam in the coming months. After an annual growth rate of 0.5% in 2023, we expect the eurozone GDP growth to accelerate only minimally, to 0.8% in 2024, and the pace of growth will remain below 2% even in the next year.

In **Germany**, the IPO index unexpectedly deteriorated in June. While the assessment of the present situation remained broadly unchanged among German firms, their appraisal of the future outlook became more pessimistic. Even if the recession is over in Germany, the yearly growth prospects are still weak: the economy may expand by a symbolic 0.2% this year and accelerate slightly, to about 1%, in 2024. Among the factors behind the underwhelming growth performance are the demographic trends, the high proportion of elderly people and the labor shortages.

Macroeconomic indicators for Hungary and Kopint-Tárki forecast

(year-on-year change, percentage)

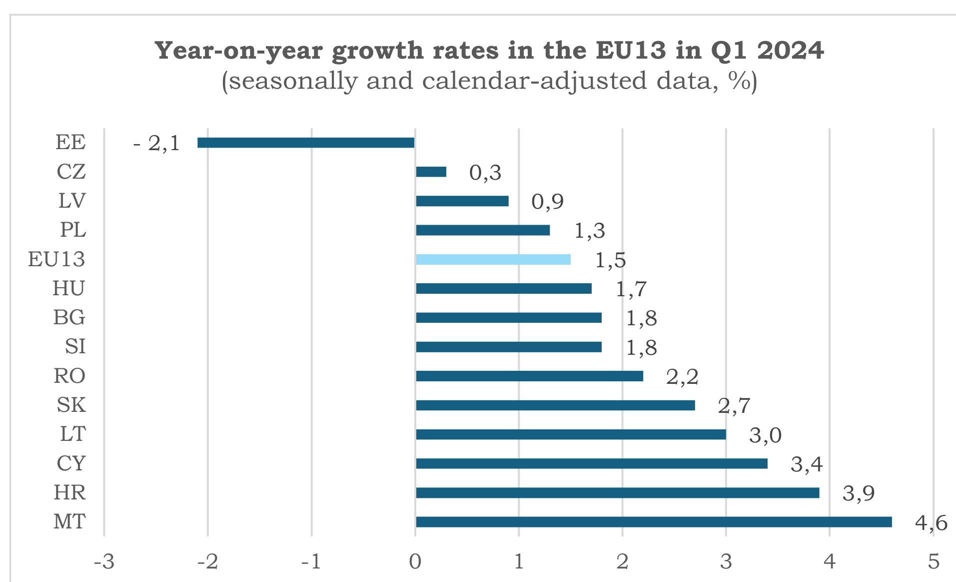
	Data				Forecast		
	2022	2023	2024		2024		2025
			Q1	Q2	2024 Apr.	2024 Jul.	2024 Jul.
GDP aggregates, real growth							
GDP total	4.6	-0.9	*1.1*		2.5	**2.5**	**3.2**
Domestic Demand	4.1	-5.6	*-2.9*		3.0	**2.2**	**3.2**
Private Consumption	6.8	-1.0	*3.4*		3.2	**3.8**	**3.0**
Public Consumption	0.8	-1.5	*-2.7*		0.5	**-0.9**	**0.5**
Gross Fixed Capital Formation	1.4	-7.4	*-6.9*		2.7	**0.0**	**4.6**
Gross Capital Formation	0.3	-14.9	*-21.8*		3.7	**-0.2**	**4.6**
Export	11.4	0.9	*-5.3*		1.4	**0.8**	**4.2**
Import	10.8	-4.3	*-9.2*		2.0	**0.4**	**4.2**
Industrial production	6.1	-5.5	*-4.1*	*0.6* [e]	1.7	**0.0**	**5.0**
Consumer Price Index	14.5	17.6	*3.7*	*3.8*	4.3	**4.0**	**3.8**
Employment, earnings							
Number of Employed, growth [a]	1.3	0.6	*0.6*	*0.9* [f]	0.4	**0.5**	**0.5**
Unemployment Rate [a]	3.6	4.1	*4.6*	*4.4* [f]	4.3	**4.3**	**3.7**
Unit Labor Costs, in EUR [b]	1.3	26.1	*17.4*		4.1	**7.8**	**3.4**
Gross Nominal Wages [c]	17.4	14.2	*14.2*	*13.5* [g]	13.5	**13.2**	**7.5**
Net Real Wages [c]	2.5	-2.9	*10.1*	*9.5* [g]	8.8	**8.8**	**3.9**
Savings Rate, % of GDP [d]	4.0	7.4	*7.3*		6.6	**6.6**	**5.9**
Current and Capital Accounts Balance, % of GDP	-6.5	1.1	*1.2* [h]		2.0	**3.02**	**3.0**
General government Fiscal Balance, ESA-2010, % of GDP	-6.2	-6.7	*-5.4*		-5.0	**-5.5**	**-4.5**
Gross Government Debt, % of GDP	74.1	73.5	*76.0*		73.2	**73.4**	**73.0**
Short-term Government Yields (3M), eop	12.32	6.23	*6.59*	*6.21*	5.5	**6.0**	**5.8**
Long-term Government Yields (10Y), eop	8.98	5.86	*6.74*	*6.81*	6.0	**6.5**	**6.0**
External assumptions							
Internat. Trade in Goods and Services [d]	5.4	0.3			3.3	**3.0**	**3.3**
Brent Oil Price ($/bbl, p. avg.)	100.9	82.5	*83.0*	*84.6*	86.0	**86.0**	**88.0**
GDP Real Growth, Eurozone	3.4	0.5	*0.1*		0.7	**0.8**	**1.5**
GDP Real Growth, New EU Members	4.1	0.6	*1.5*		2.7	**2.6**	**3.2**
EUR-HUF, period average	391	382	*388*	*391*	390	**392**	**392**
EUR-USD, period average	1.05	1.08	*1.09*	*1.08*	1.08	**1.08**	**1.08**

a ILO methodology, period averages, aged 15-74, public workers are counted as employed.
b Manufacturing, based on gross value added and the monthly average compensation of employees in euro, cumulated from the beginning of the year
c All employers
d Net lending of households, financial accounts statistics, percentage of GDP, four-quarter cumulative data
e April-May
f February-May
g April
h Seasonally adjusted data by the MNB

II. New member states (EU13)

In the first quarter of this year, the combined GDP of the EU13 countries only grew by 1.5% annually, a disappointing outcome even if the recession is over in the region, except for Estonia. Based on the *seasonally and calendar-adjusted data,* the GDP was down 2.1% in Estonia. The growth rates begin to diverge within the region, with markedly weak growth rates in the Visegrad countries, Romania, Bulgaria and some of the Baltic states. Meanwhile, the smaller, usually tourism-driven countries achieved far more impressive growth rates in the first quarter, even before the beginning of the tourism season. The economy expanded by more than 3% in Cyprus, Croatia and Malta.

A special case among the new member states is *Lithuania* which saw a reasonably strong growth rate of 3% in the first quarter, due to the buoyant consumption growth, supported by steadily rising real wages amid sharply decelerating inflation. Public investments, partially financed by the EU, provided another growth driver – their implementation was excellently timed for a period when private investment activity has not yet recovered. The external conditions were no less unfavorable for Lithuania than for the other member states: net exports remain almost stagnant, and the manufacturing sector undergoes a wave of destocking. The momentum of growth will become less intense, but it is likely to last until the end of the year.



In *Poland*, the region's largest economy, GDP was up 1.3% only, still providing the largest growth contribution (0.45 percentage point) to the overall growth in the EU13. But it is indicative that the growth contribution of Croatia, an economy about 10 times smaller than Poland, almost reached the one-third of the Polish contribution in the first quarter. Still, the Polish growth outlook is not unequivocally dim: the largest investment project in the history of the country (Intel chip plant) has not yet started and is expected to be completed by 2027. Real wage growth, supported by the easing of the inflationary pressure, will probably lead to a substantial expansion of consumption. As a result, the even the possibility a growth rate above 3% during the rest of the year cannot be excluded.

Czechia is still to find its footing: the first quarter saw an annual growth rate of merely 0.3%. The reasons are manyfold. As a result of the weakness of the German economy, industrial output has been basically stagnating since the middle of 2023. *Inflation* is generally declining but in some areas the trend goes into the opposite direction, especially in the case of prices of services. As a result, the pace of household income growth – and as a result, the pace of consumption growth – is less muted than in other member states.

Estonia is the only member state that has been suffering from recession for two years in a row, and it was not over yet in the first half of this year. The main reason is still the ongoing implosion of the energy sector that was mostly specialized to the processing of Russian oil and gas. As it is well-known, Estonia was one of the first member states to decouple from Russian gas and oil almost immediately after the outbreak of the Russo-Ukrainian war, and introduced severe restrictions regarding other products as well, in line with the sanctions. As a result, the trade flows with their principal trade partner plummeted into oblivion, which was a shock to the economy. Estonia now procures its energy import from Poland and the Scandinavian countries, at 15-20% higher prices, and much of the price hikes were passed on consumers who rationally responded by reducing their consumption and investment demand.

The Estonian fiscal position is sound enough to handle some additional fiscal stimuli without problem (debt-to-GDP ratio is around 20%, deficit-to-GDP ratio is about 3%). Yet, the Estonian government has already engaged in budgetary adjustment, citing prudent management principles: the VAT rate was raised from 20 to 22% in January (thereby preventing disinflation). As a result, the recession is unlikely to end this year, although some growth may occur in the last quarter, mostly due to the statistical base effect.

The new member states, save a couple of small countries, are still not in a good shape, but the revival of private consumption is likely to give boost to growth in the second half of the year. Also, an upturn in the external trade flows can be expected. On the whole, the regional GDP growth rate may reach 2.3-2.8% this year and 2.8-3.4% in 2025.

Table 2/1.

Economic Growth in the EU Member States

(Percentage change of real GDP over the previous year)

	Weight	2018	2019	2020	2021	2022	2023	2024*	2025*
Germany	24.3	1.0	1.1	-3.8	3.2	1.8	-0.2	0.2	1.2
France	16.5	1.9	1.8	-7.5	6.4	2.5	0.9	0.9	1.1
Italy	12.3	0.9	0.5	-9.0	8.3	4.0	0.9	0.9	1.1
Netherlands	6.1	2.4	2.0	-3.9	6.2	4.3	0.1	0.7	1.5
Belgium	3.4	1.8	2.2	-5.3	6.9	3.0	1.4	1.2	1.2
Luxembourg	0.5	1.2	2.9	-0.9	7.2	1.4	-1.1	1.6	2.9
Ireland	3.0	8.5	5.3	6.6	15.1	9.4	-3.2	0.7	4.5
Greece	1.3	1.7	1.9	-9.3	8.4	5.6	2.0	1.8	2.0
Spain	8.6	2.3	2.0	-11.2	6.4	5.8	2.5	2.0	1.8
Portugal	1.6	2.8	2.7	-8.3	5.7	6.8	2.3	1.6	1.7
Austria	2.8	2.4	1.5	-6.6	4.2	4.8	-0.8	0.3	1.3
Finland	1.6	1.1	1.2	-2.4	2.8	1.3	-1.2	-0.2	1.6
Estonia	0.2	3.8	4.0	-1.0	7.2	-0.5	-3.0	0.0	3.1
Slovakia	0.7	4.0	2.5	-3.3	4.8	1.8	1.6	2.2	2.4
Slovenia	0.4	4.5	3.5	-4.2	8.2	2.5	1.6	2.5	2.5
Cyprus	0.2	5.6	5.5	-3.4	9.9	5.1	2.5	2.9	2.4
Malta	0.1	7.4	7.1	-8.2	12.5	8.1	5.7	4.5	4.3
Latvia	0.2	4.0	0.6	-3.5	6.7	3.0	-0.3	1.8	2.8
Lithuania	0.4	4.0	4.7	0.0	6.3	2.4	-0.3	2.0	3.0
Croatia	0.4	2.8	3.4	-8.6	13.8	6.3	3.1	2.5	2.9
Euro Area	**84.7**	**1.8**	**1.6**	**-6.1**	**5.9**	**3.4**	**0.5**	**0.8**	**1.5**
Denmark	2.2	2.0	1.5	-2.4	6.8	2.7	1.9	0.3	1.6
Sweden	3.2	2.0	2.0	-2.2	6.1	2.7	-0.2	1.2	2.1
Hungary	1.2	**5.4**	**4.9**	**-4.5**	**7.1**	**4.6**	-0.9	2.5	3.2
Czech Republic	1.8	3.2	3.0	-5.5	3.6	2.4	-0.3	1.3	2.6
Poland	4.4	5.9	4.4	-2.0	6.9	5.3	0.2	3.3	3.5
Romania	1.9	6.0	3.9	-3.7	5.7	4.1	2.1	2.8	3.5
Bulgaria	0.6	2.7	4.0	-4.0	7.7	3.9	1.8	2.1	3.0
EU14	**87.5**	**1.6**	**-5.8**	**5.3**	**3.5**	**1.8**	**0.4**	**0.8**	**1.4**
New EU13	**12.5**	**4.9**	**4.0**	**-3.5**	**6.3**	**4.1**	**0.6**	**2.6**	**3.2**
EU27	**100**	**2.1**	**1.8**	**-5.6**	**6.0**	**3.4**	**0.5**	**1.0**	**1.7**
Memorandum items									
USA		2.9	2.3	-2.2	5.8	1.9	2.5	2.6	1.8
Japan		0.6	-0.4	-4.3	2.6	1.0	1.9	0.5	1.1
United Kingdom		1.3	1.6	-11.0	8.7	4.3	0.1	0.4	1.0
China		6.8	6.0	2.0	8.4	3.0	5.2	4.9	4.5
Russia		2.8	2.0	-3.0	5.6	-1.2	3.6	2.2	0.8
South-Eastern Europe									
Serbia		4.5	4.3	-0.9	6.7	3.0	1.9	3.6	4.2
Turkey		3.0	0.8	1.8	9.0	2.0	3.5	3.5	3.8

* Kopint-Tárki forecast
EU-14 = Countries that joined the European Union before 2004
Új EU-13 = Countries that joined the European Union in 2004, 2007 and 2013
Source: Eurostat, national statistical offices, OECD

Table 2/2.

Inflation in the EU Member States

(Harmonized consumer price indices, percentage change over the previous year)

	Weight	2018	2019	2020	2021	2022	2023	2024*	2025*
Germany	23.5	1.9	1.4	0.4	3.2	8.7	6.0	2.2	1.9
France	16.7	2.1	1.3	0.5	2.1	5.9	5.7	2.7	2.0
Italy	14.2	1.2	0.6	-0.1	1.9	8.7	5.9	1.9	2.1
Netherlands	5.1	1.6	2.7	1.1	2.8	11.6	4.1	2.2	1.8
Belgium	3.4	2.3	1.2	0.4	3.2	10.3	2.3	3.6	2.3
Luxembourg	0.3	2.0	1.6	0.0	3.5	8.2	2.9	2.5	2.2
Ireland	1.6	0.7	0.9	-0.5	2.4	8.1	5.2	2.1	1.8
Greece	1.7	0.8	0.5	-1.3	0.6	9.3	4.2	2.6	1.8
Spain	9.2	1.7	0.8	-0.3	3.0	8.3	3.4	3.0	2.0
Portugal	1.9	1.2	0.3	-0.1	0.9	8.1	5.3	1.9	1.9
Austria	2.7	2.1	1.5	1.4	2.8	8.6	7.7	3.8	3.0
Finland	1.6	1.2	1.1	0.4	2.1	7.2	4.3	1.3	2.3
Estonia	0.2	3.4	2.3	-0.6	4.5	19.4	9.1	3.5	3.0
Slovakia	0.8	2.5	2.8	2.0	2.8	12.1	11.0	3.0	3.3
Slovenia	0.4	1.9	1.7	-0.3	2.0	9.3	7.2	2.4	3.5
Cyprus	0.2	0.8	0.5	-1.1	2.3	8.1	3.9	2.1	2.1
Malta	0.1	1.7	1.5	0.8	0.7	6.1	5.6	3.3	3.0
Latvia	0.3	2.6	2.7	0.1	3.2	17.2	9.1	1.7	2.5
Lithuania	0.5	2.5	2.2	1.1	4.6	18.9	8.7	1.0	2.5
Croatia	0.5	1.6	0.8	0.0	2.7	10.7	8.4	4.3	3.0
Euro Area	**84.4**	**1.8**	**1.2**	**0.3**	**2.6**	**8.4**	**5.4**	***2.5***	***2.1***
Denmark	1.9	0.7	0.7	0.3	1.9	8.5	3.4	1.8	1.8
Sweden	2.7	2.0	1.7	0.7	2.7	8.1	5.9	2.3	2.0
Hungary	**1.1**	**2.9**	**3.4**	**3.4**	**5.2**	**15.3**	**17.6**	4.0	3.5
Czech Republic	1.6	2.0	2.6	3.3	3.3	14.8	12.0	2.4	2.1
Poland	4.9	1.2	2.1	3.7	5.2	13.2	10.9	3.8	3.7
Romania	2.3	4.1	3.9	2.3	4.1	12.0	9.7	5.7	4.0
Bulgaria	0.6	2.6	2.5	1.2	2.8	13.0	8.6	3.0	2.9
EU14	**86.5**	**1.9**	**1.3**	**0.4**	**2.6**	**7.8**	**5.3**	**2.4**	**2.0**
New EU13	**13.5**	**2.3**	**2.7**	**2.7**	**4.4**	**13.9**	**11.4**	**3.7**	**3.3**
EU27	**100.0**	**1.8**	**1.4**	**0.7**	**2.9**	**9.2**	**6.4**	**2.6**	**2.2**
Memorandum items[a]									
USA		2.4	1.8	1.4	4.7	8.0	4.1	3.2	2.4
Japan		0.5	0.5	0.0	-0.3	2.5	3.3	2.1	2.0
United Kingdom		2.5	1.8	0.8	2.6	9.1	7.3	2.7	2.3
China		2.0	2.9	2.5	0.8	1.9	0.4	1.0	1.5
Russia [b]		2.9	4.5	2.6	5.9	13.8	5.9	7.2	6.0
South-Eastern Europe									
Serbia		2.0	1.9	1.7	3.6	8.5	12.6	4.8	3.2
Turkey		16.3	15.2	12.3	17.8	63.0	55.4	57.4	31.5

a Non-harmonized price indexes
b December/December
* Kopint-Tárki forecast
EU-14 = Countries that joined the European Union before 2004
EU-13 = Countries that joined the European Union in 2004, 2007 and 2013
Source: Eurostat, national statistical offices, OECD

Table 2/3.

Harmonized Unemployment rates in the EU Member States

(Unemployed as a percentage of the labor force aged 15-74, ILO-Eurostat)

	Weight	2018	2019	2020	2021	2022	2023	2024*	2025*
Germany	20.1	3.4	3.1	3.6	3.6	2.7	2.9	3.2	3.1
France	14.2	9.0	8.4	8.0	7.9	7.3	7.3	7.3	7.1
Italy	11.7	10.6	10.0	9.6	9.6	8.2	7.7	7.0	6.9
Netherlands	4.5	3.8	3.4	3.3	4.2	3.4	3.5	3.6	3.2
Belgium	2.4	6.0	5.4	6.4	6.3	5.6	5.6	5.5	5.3
Luxembourg	0.2	5.6	5.6	5.8	5.5	4.7	5.0	5.5	5.2
Ireland	1.1	5.8	5.0	6.7	6.3	4.8	4.1	4.5	4.3
Greece	2.1	19.3	17.3	15.3	14.8	12.5	11.0	10.0	9.0
Spain	11.0	15.3	14.1	15.2	14.8	13.1	12.0	11.6	10.5
Portugal	2.4	7.1	6.5	6.7	6.6	5.9	6.5	6.3	6.1
Austria	2.2	4.9	4.5	6.4	6.2	4.6	6.4	5.2	5.2
Finland	1.3	7.4	6.4	7.7	7.7	6.7	7.0	7.5	7.1
Estonia	0.3	5.4	4.4	6.8	6.2	6.1	7.0	7.4	6.8
Slovakia	1.3	6.5	5.8	6.8	6.8	6.3	5.7	5.4	5.2
Slovenia	0.5	5.1	4.5	4.6	4.8	4.1	3.6	3.7	3.6
Cyprus	0.2	8.4	7.1	7.5	7.5	7.2	6.4	5.6	5.4
Malta	0.1	3.7	3.6	4.0	3.5	3.2	2.7	3.0	2.9
Latvia	0.5	7.4	6.3	7.3	7.6	7.1	6.8	6.6	6.5
Lithuania	0.7	6.2	6.3	7.1	7.1	6.0	6.8	7.0	6.9
Croatia	0.9	8.5	6.6	6.7	7.7	6.3	6.5	5.8	5.6
Euro Area	**77.7**	**8.2**	**7.6**	**8.0**	**7.7**	**6.7**	**6.5**	**6.4**	**6.1**
Denmark	1.4	5.1	5.0	5.3	5.1	4.2	4.8	5.0	4.6
Sweden	2.6	6.4	6.8	8.9	8.8	7.4	7.4	7.9	7.3
Hungary	2.3	**3.6**	**3.3**	**4.1**	**4.1**	**3.7**	4.1	4.3	3.7
Czech Republic	2.5	2.2	2.0	2.7	2.8	2.7	2.4	2.8	2.9
Poland	8.0	3.9	3.3	3.3	3.4	2.7	3.0	3.0	2.9
Romania	3.9	4.2	3.9	5.0	5.6	5.4	5.4	5.5	5.5
Bulgaria	1.6	5.2	4.2	5.1	5.3	5.2	4.2	4.2	4.0
EU14	**77.2**	**7.5**	**7.1**	**7.9**	**7.8**	**6.7**	**6.6**	**6.4**	**6.1**
New EU13	**22.8**	**4.5**	**4.1**	**4.4**	**4.6**	**4.1**	**4.1**	**4.2**	**4.0**
EU27	**100.0**	**7.4**	**6.8**	**7.2**	**7.1**	**6.1**	**6.0**	**5.9**	**5.6**
Memorandum items[a]									
USA		3.9	3.7	8.1	5.4	3.6	3.6	3.9	4.0
Japan		2.8	2.4	2.8	2.8	2.6	2.6	2.5	2.4
United Kingdom		4.1	3.8	4.5	4.6	3.9	4.0	4.5	4.7
China[b]		4.0	3.8	3.6	4.0	4.2	4.2	4.0	4.0
Russia[c]		5.4	4.6	6.0	5.9	3.9	4.5	4.3	4.1
Sout-Eastern-Europe									
Serbia[d]		12.7	10.4	9.0	10.7	9.2	8.7	9.2	9.1
Turkey		10.9	13.7	13.2	12.8	12.9	10.1	10.1	10.2

a Non-harmonized unemployment rates
b Urban unemployment
c OECD statistics, unemployment rates for the age group 15-64
d National statistics, unemployment rates for the age group 15-64
* Kopint-Tárki forecast
EU14 = Countries that joined the European Union before 2004
EU13 = Countries that joined the European Union in 2004, 2007 and 2013
Source: Eurostat, national statistical offices, ILO, OECD

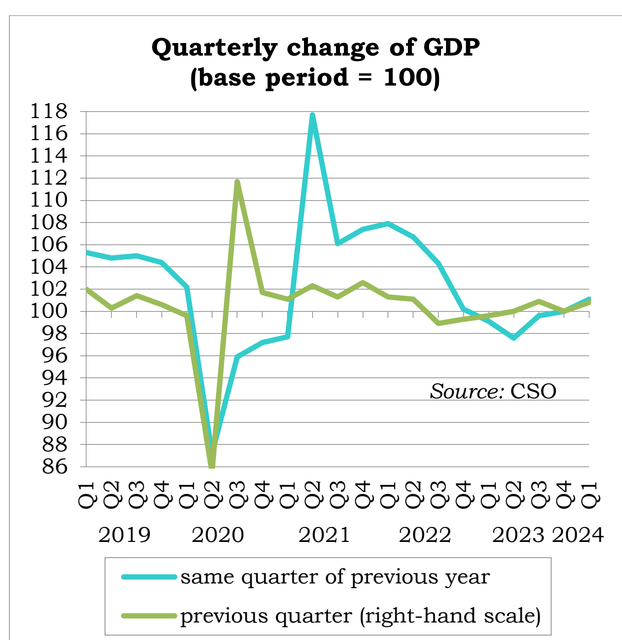
III. The Hungarian economy

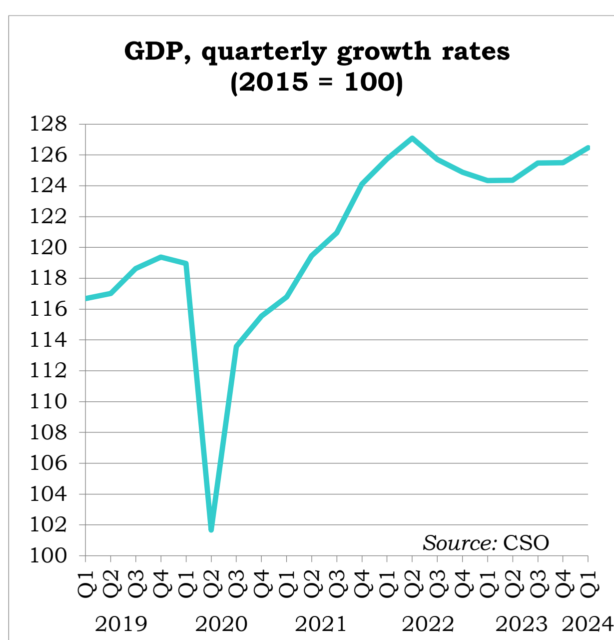
After stagnating at the end of 2023, the Hungarian economy was up 0.8% on a quarterly basis and 1.1% compared to the same quarter of the last year. The absolute level of seasonally and calendar-adjusted GDP is still below the level seen in the second quarter of 2022 (the previous peak, boosted by a pre-election stimulus package), but only minimally.

Domestic demand underwent a *partial turnaround*: ***household consumption expenditures*** climbed 3.6% in the first quarter, as opposed to the decline in 2023. By contrast, ***gross fixed capital formation*** kept declining at a brisk pace of nearly 7%. This, along with the continuation of *destocking*, led to a plunge in *gross capital formation* at a double-digit pace, while overall ***domestic final use*** was down 5.6% on an annual basis.

This means that, despite the upturn in consumption, the positive GDP growth was only possible because of the positive contribution of *net export*. The latter was a reflection of the steep fall in imports that were kept down by falling investments and contracting inventories. Merchandise export also decreased in the first quarter, by nearly 6%, on an annual basis.

On the *production side*, the value added of ***services*** – especially market services – seems to have benefited from rising consumption: overall services grew by 2.7%, after three consecutive quarters of decline. On the other hand, ***industrial*** value added steadily kept declining, by 4.2% on a year-on-year basis. The industrial outlook has sharply deteriorated during the last couple of months. Some modest expansion was seen in **construction**, while **agricultural** value added remained stable after the wild fluctuations in 2022-2023 – but the intense *heatwave* in July may well have put an end to this fragile stability.

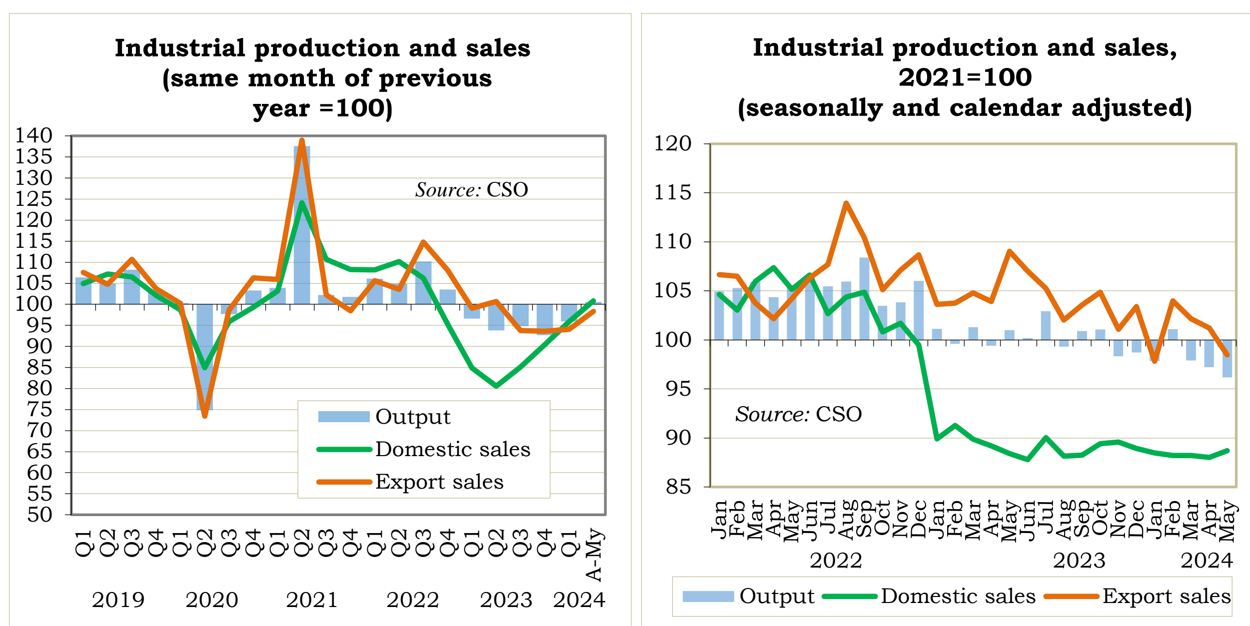




3.1. The production and expenditure-side components of GDP

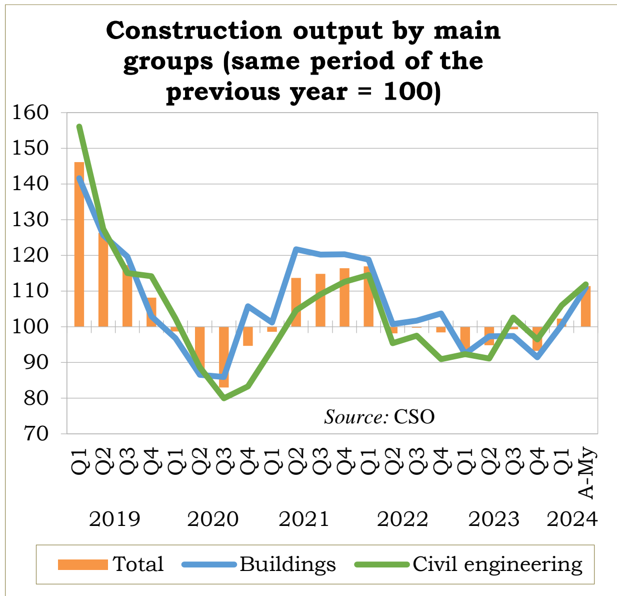
Regarding the unfavorable trends in **industrial** activity, it is noteworthy that both the *domestic* and *export* sales kept trailing previous expectations. Domestic sales, in *year-on-year terms*, are past its extreme plunge seen in 2023, but they still decreased in the first quarter, although the second quarter may see some positive growth. The year-on-year decline in export sales continued unabated in the first quarter, followed by some slowdown in April-May. Even more telling is *seasonally and calendar-adjusted time series* which shows that the apparent improvement in the year-on-year growth rates in domestic sales is entirely due to the statistical base effect: the monthly sales levels are still to move off from the trough it reached a year ago. In the case of export sales, the downward trend is not even over yet.

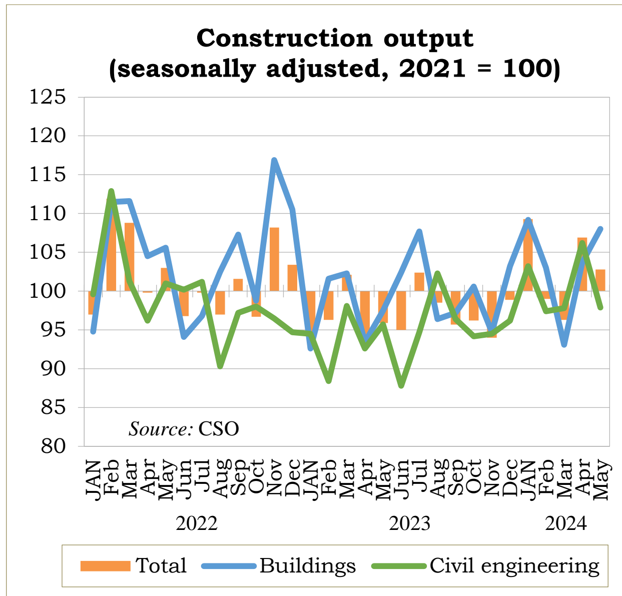
This means that the positive turn in consumption alone could not prompt a positive turn in industrial domestic sales – except for food industry – for such a turn, a revival in investment and the inventory cycle would be necessary. Export sales, on the other hand, will not improve without a European industrial upturn, which is still to happen. As a result, it became highly uncertain by now *whether any positive growth in industrial activity will occur at all in 2024*.



In **construction**, by contrast, output started to expand after an almost two-year period of decline. The average growth rate was about 6% in January-May, with a modest pace in the construction of *buildings* and a stronger pace (8.5%) in civil engineering. The seasonally and calendar-adjusted data also shows a steady improvement in monthly outputs, at least in the case of civil engineering.

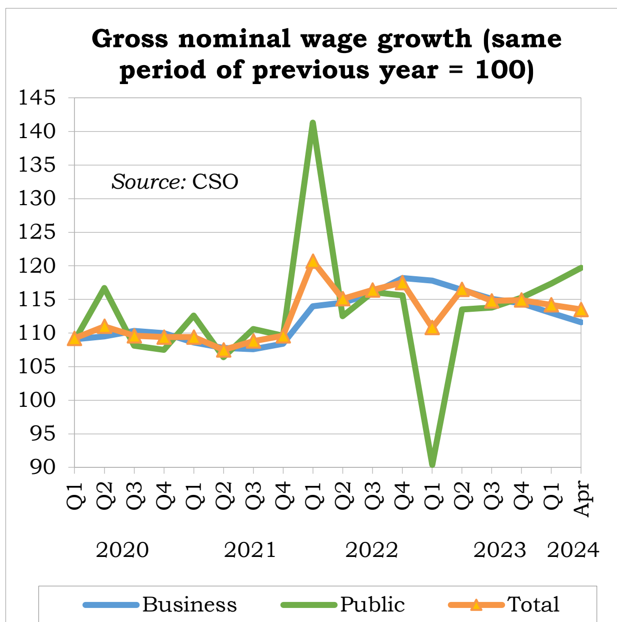
The previous decline in the stock of orders turned into growth by May in both main groups. According to the iBuild database, the volume of *newly started civil engineering* construction projects significantly grew on an annual basis, while activity start remained weak in the construction of buildings, especially regarding non-housing buildings. The number of **newly built dwellings** continued to steeply fall in the first quarter, along with

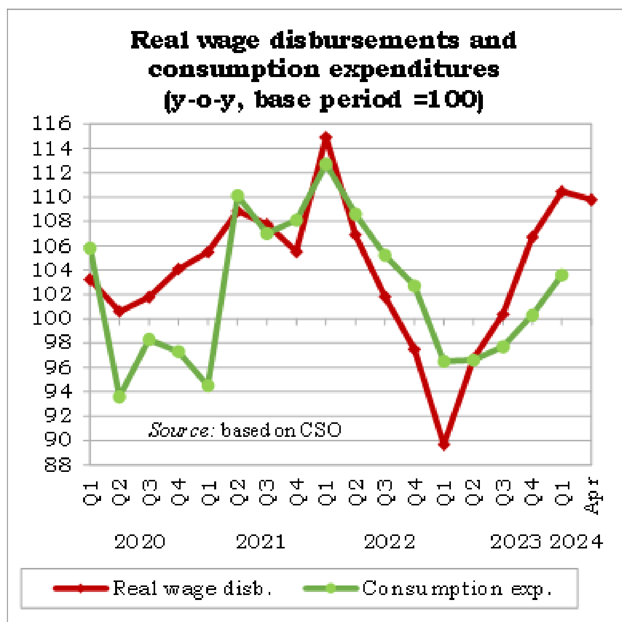




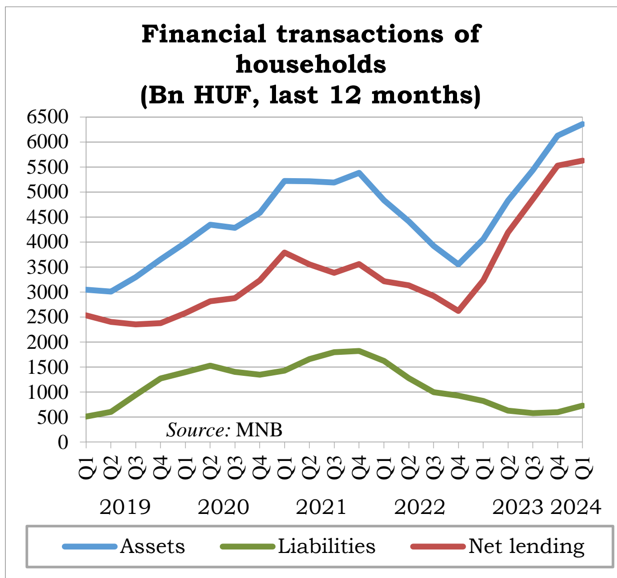
the number of newly issued housing construction permits, although the number of housing market transactions and housing market demand is gaining momentum.

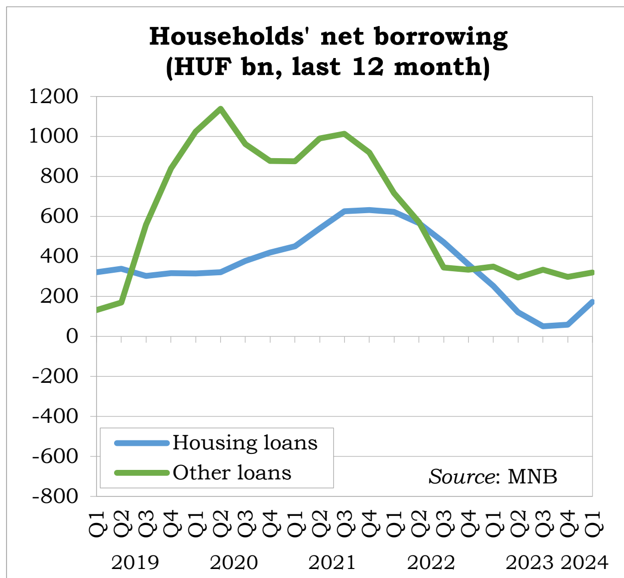
On the **expenditure side of GDP**, the ***growth in consumption expenditures*** was supported by moderating inflation and, simultaneously, the double-digit rise in nominal wages. Business sector wages grew at a more modest pace while public sector wages – due to the steep wage rise in healthcare and among schoolteachers – grew by more than 15%. On average, ***real wages*** were up 9.9% in January-April, while real wage disbursements climbed 9.9%. In light of such rates, the 3.6% expansion in household consumption expenditures can be considered relatively modest, especially if we take into account that – according to the national accounts data – the *disposable income* of households rose at a rate not far below the pace of labor income growth in the first quarter.





Since household investments also dropped in the first quarter – according to the national accounts data – on an annual basis, much of the additional incomes flew into *financial savings*. The four-quarter cumulative savings amounted to 7.3% of GDP at the end of the first quarter, and the nominal value of the cumulative net financing capacity of households was 74% higher than one year earlier, even though households revved up their *net borrowing* activity. The latter was due to the upturn in *new housing loans*.



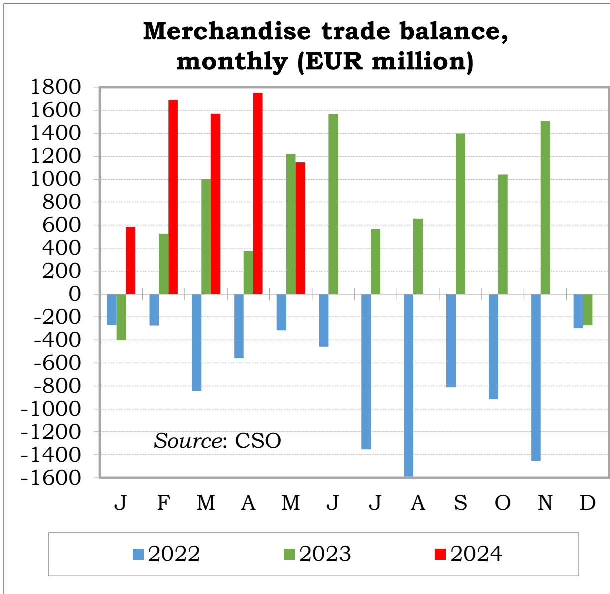


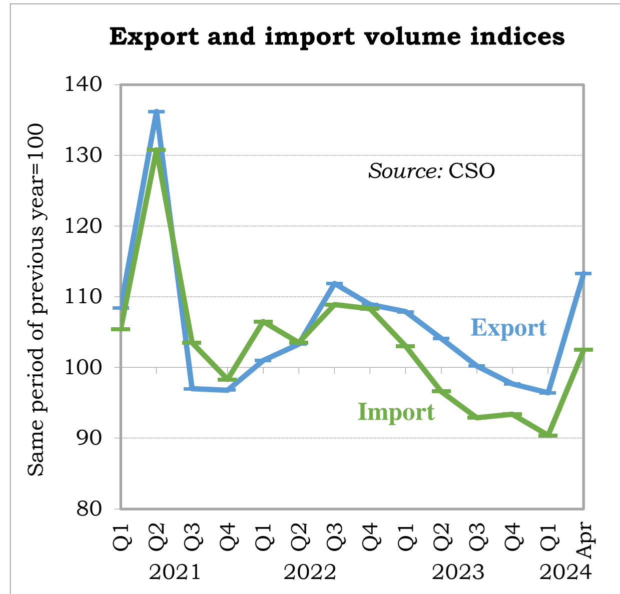
This rise in financial savings cannot be attributed to a caution prompted by *labor market* developments. Even though the labor shortage keeps easing in the business sector, the number of employed has continued to rise while the ***unemployment rate*** has been edging downward in recent months. The fact that the households could not yet entirely recoup the losses of the *negative wealth effect** in 2021-2022 was probably a much more important factor behind the rise in savings activity.

The year-on-year fall in **investments** continued at a pace near 10% in the first quarter. The decline affected more than two-thirds of the economic industries, including *manufacturing* - the economic industry with the largest share in investments – even though the pace of decrease in manufacturing investments was only 4%. According to the results of the spring survey by the Kopint-Tárki, many of the manufacturing firms delay their investment plans, due to the less than encouraging demand outlook. The drop in investments was more drastic in the real estate and the transport-storage sector. The overall willingness to invest may be sapped by the fact that the national-level *gross operating surplus* probably declined in real terms in the first quarter of the year.

The volume of **merchandise import** continued to contract at a steep pace in the first quarter, and the second quarter will probably see the continuation of decrease at a slower pace. While the volume of **export** declined too – at a lesser pace – the gap between the export and import growth rates remained wide until April – but some preliminary data suggest that the gap may have narrowed down in the second quarter as the moderation in the pace of import decrease may have been faster than the improvement in export growth rates. The ***merchandise trade surplus*** steadily reached record-

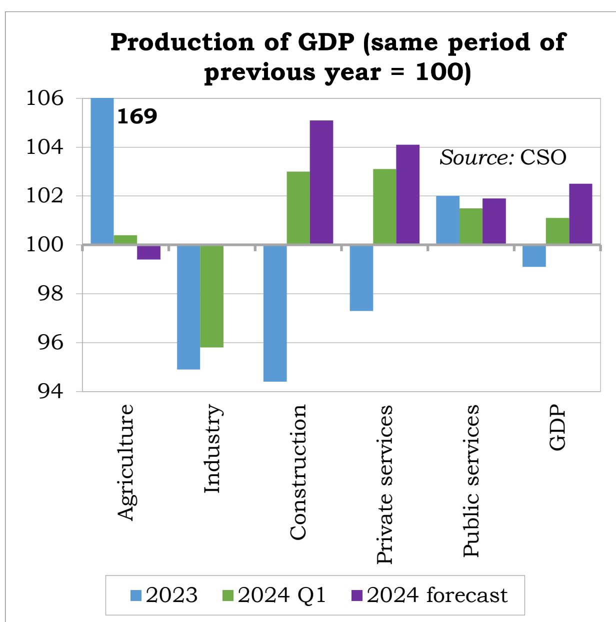
breaking levels up until April – even if the effect of the terms-of-trade improvement is much less substantial now than in 2023. The record streak ended in May.

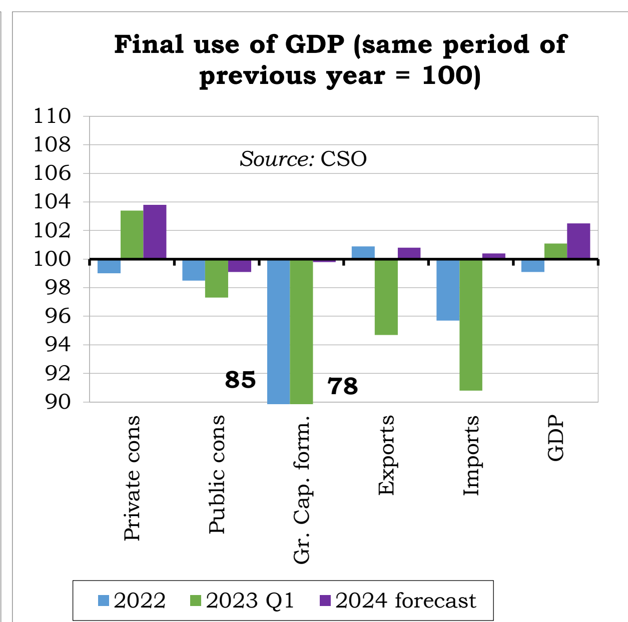




3.2. Growth forecast for 2024

To sum up so far: in the first quarter of 2024, only one main component of domestic demand – private consumption – saw a reversal from decline to growth, while there was not even a hint of improvement, despite our earlier expectations, in the case of fixed capital formation and the inventory cycle. Due to the general fall in gross capital formation, *import* continue to decline at a steep pace, which raises question marks about our earlier prediction about the recovery of import growth in 2024. As a result, the growth contribution of *net exports* will also more favorable than expected previously, even though on the *production side* the prospects of industrial recovery – especially including the prospects of industrial export sales – are less sanguine now for 2024 than before.

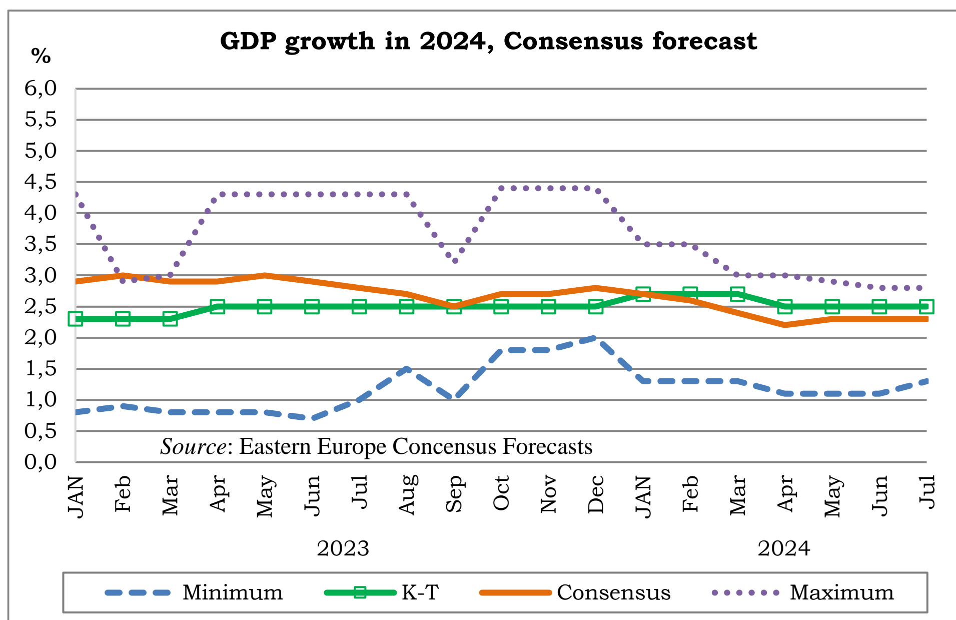




For the above reasons, we made a number of revisions regarding the components of GDP growth. We raised our private consumption prediction to close to 4%. Now we expect stagnation, rather than growth, in fixed capital formation, even if some modest growth may start in the last quarter. As a result, the overall growth in *domestic demand* will be much weaker than previously expected. Even if the last quarter of this year may see some upturn in imports, as a result of the starting revival in investments, *net export* will probably make a positive contribution to economic growth this year.

On the *production side*, we revised our industrial growth forecast downward (to 0%, with downside risks) while revised upward our services and construction growth predictions.

According to our estimate, the various revisions in opposite directions roughly cancel each other out, hence we **maintain our earlier GDP growth forecast – 2.5% – for 2024.** At present, this prediction is somewhat above the consensus forecast among the participants of the **Consensus Economics** survey.



3.3. Fiscal, monetary and financial developments

3.3.1. Fiscal developments

In our summer forecast, maintaining our previous prediction, we expect the accrual-based fiscal deficit to hit **5.5% of GDP** in 2024.

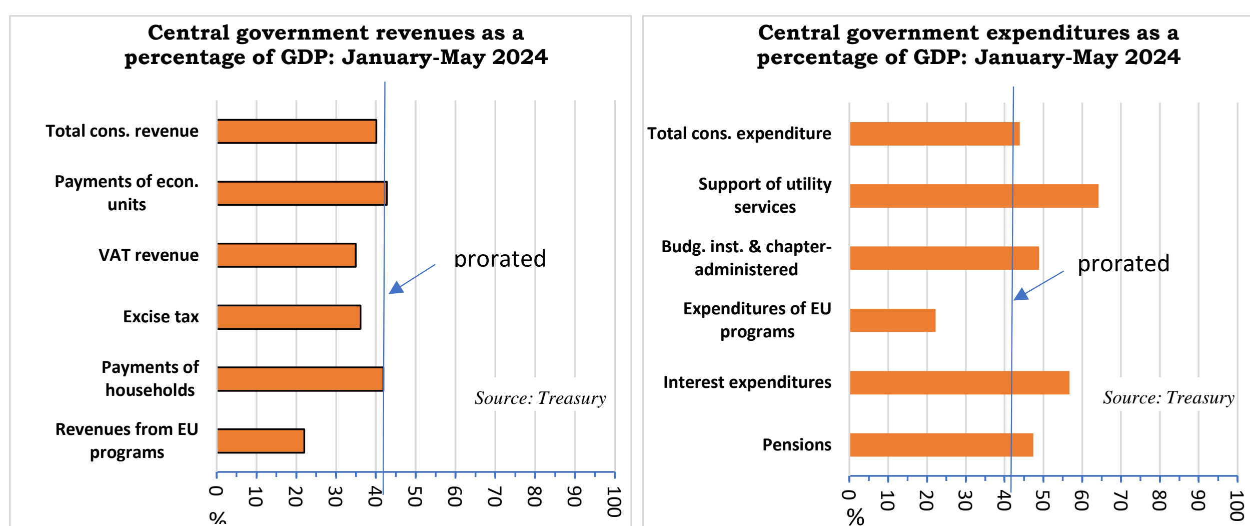
The original budget act, adopted in 2023, set the yearly deficit to 3.1% of GDP, assuming a GDP growth of 4%. During the spring of 2024 – after seeing that the fiscal deficit already exceeded the yearly target by the end of April – both the deficit and GDP growth projection were revised: the new target was a deficit-to-GDP ratio of 4.5% of GDP, amid an economic growth rate of 2-3%.

But when announcing this new deficit target, the government did not publish an amended fiscal trajectory calculation – not even new target numbers for the overall revenue and expenditure. This means, that **at present Hungary has no budgetary plan** for this year **that could be assessed economically**. Naturally, the general government can keep operating without a budget, but this lack of target values currently in force **creates a high degree of uncertainty**.

In the first quarter, the ESA deficit of the general government amounted to 5.4% of GDP.

The record level deficit in January-April was followed by a modest cash-flow surplus in May. This is partly because the EU Commission transferred its contribution to the costs of the teachers' wage hike at the end of May. Besides, the VAT revenues also rose somewhat in May, although the cumulative five-month VAT revenue shortfall is still enormous. The original budget plan envisaged a 23% (!) growth in the yearly VAT revenues for 2024, which is compounded by the fact that at the time of the originally adopted budget plan – that is, around the middle of 2023 – the government still expected VAT revenues for the base period (that is, 2023) that was *higher* by HUF 1000 (!) billion than the actual outcome. During January-May 2024, the actual VAT revenue amounted to only 35% of the annual target, which implies a shortfall of about The excise tax revenue inflow has also fell short of the target so far.

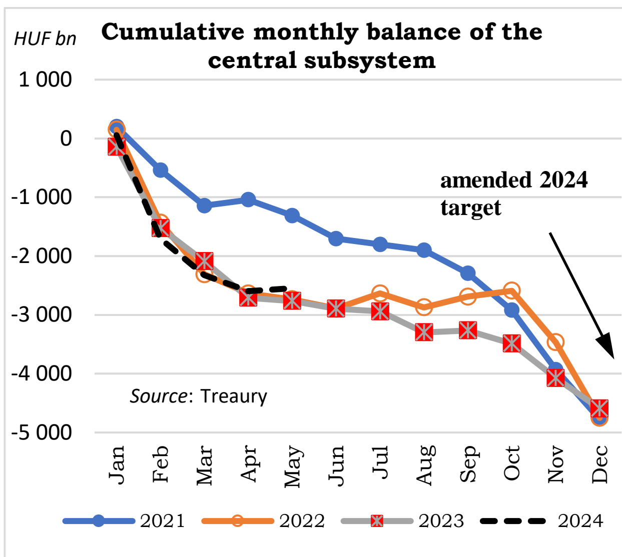
On the other hand, interest rate expenditures exceeded the target by HUF 1,760 billion in January-May. In its spring EDP report, the government indicated that the annual



interest rate expenditure alone would amount to 4.5% of GDP, exceeding the target presented in the budget plan by 27%.

The expenditures related to state property in January-May amounted to 131% of the yearly target, which, according to the explanation by the Ministry of Finance, is due to "capital increase".

After the deficit of HUF 2,500 billion in the first five months, the combined deficit in the remaining seven months should not exceed HUF 1,500 billion if the revised deficit target is to be met. Such an outcome is highly doubtful even if the May numbers prove more than a temporary bounce. In addition to the interest expenditures that far exceed the plan, the VAT revenues will fall short of the target by HUF 800-1,000 billion even if household consumption gathers momentum during the rest of the year.

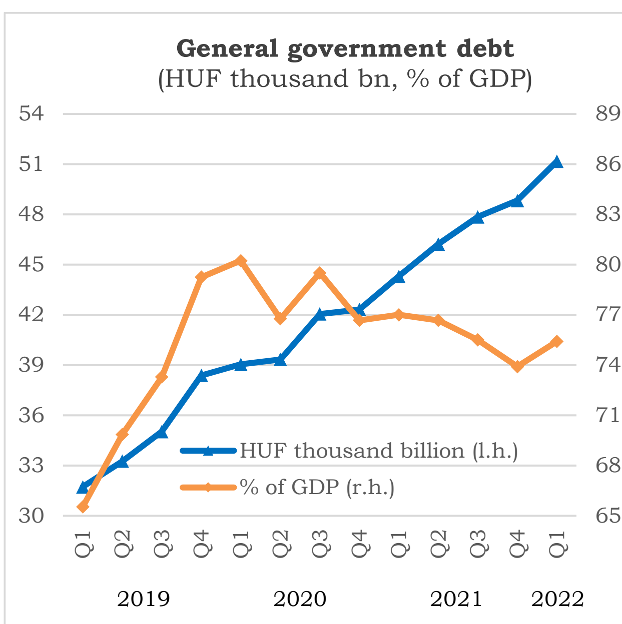


The monthly trajectory of the cash-flow deficit has been so far almost identical with that in both 2022 and 2023.

Due to the escalation of fiscal irresponsibility after the COVID crisis and the high degree of fiscal inertia, the budgetary trajectory in 2024 is highly determined. Such an inertia could be broken only with great determination – which would include the preparation of a supplementary budget, with strict numerical targets), but there is no sign of such a commitment at the moment.

Fiscal debt

According to the Treasury, the gross fiscal debt rose to HUF 54 thousand billion in January-May 2024 – by HUF 4 thousand billion – not including the Eximbank debt.



By contrast, the MNB reported that the total fiscal debt (including Eximbank) already reached HUF 58,000 billion – that is, 75.9% of GDP – by the end of March. This is a substantial rise from the 73.5% registered at the end of 2023.

The Eximbank debt has been officially part of the fiscal debt since 2018. The overall debt (including Eximbank) rose by HUF 3,100 billion in the first quarter on a quarterly basis and by HUF 7,000 billion compared to the first quarter of 2023.

3.3.2. Inflation

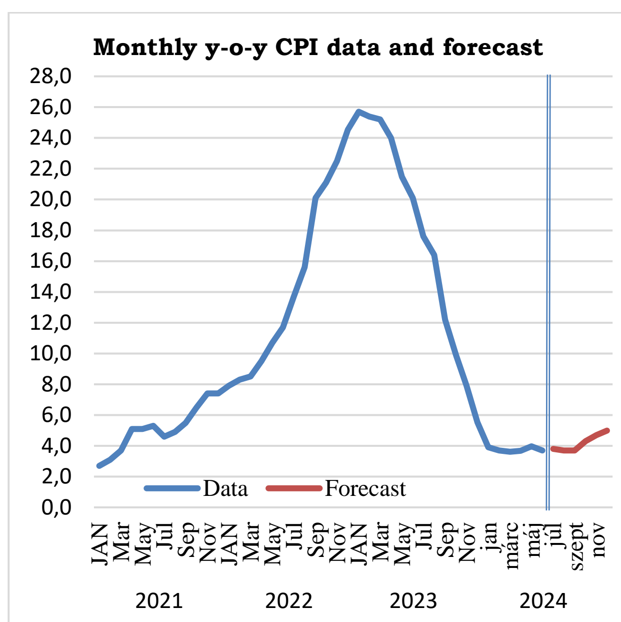
After the yearly inflation rate of 17.6% in 2023, the average rate in the first half of this year was 3.7%, with a monthly fluctuation between 3.6% and 4%. The prices of consumer durables and household energy decreased, while food prices rose at a moderate pace (by 1.6%) – although it should be taken into account that this moderate growth came on top of the extreme food price hike in 2023. The prices of most food products are still higher in Hungary than in the neighboring countries.

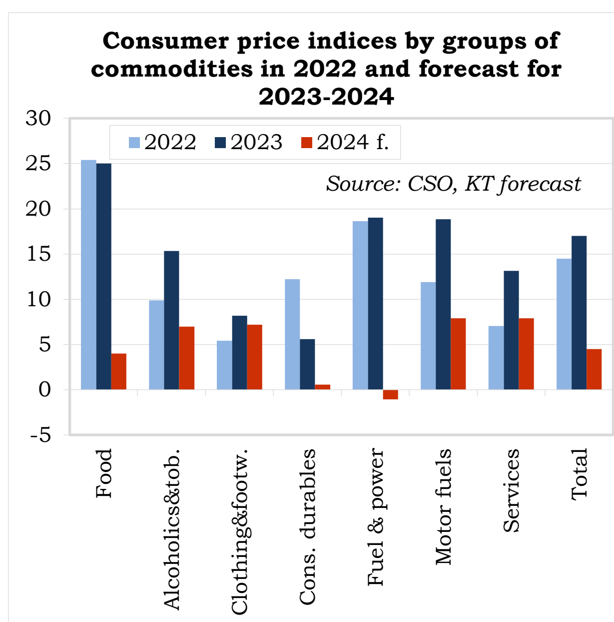
The prices of both alcoholic and tobacco products and clothing products were up 4.9% in January-June, while fuel prices only rose by 2.7%.

On the other hand, services prices kept soaring steeply, 9.8% in the first half of the year. This higher pace probably will continue throughout the year, partly because services are the most affected by the wage hikes. Also, this is the sector where the existing oligopolistic structures make it possible to raise prices further. The high services price index is often explained by the prevalence of retrospective price increases but this practice is only possible due to market distortions, namely the dominant position of a handful of firms.

We predict an **annual inflation rate of about 4% in 2024**, assuming that the government does not resort to fiscal consolidation measures that cause, directly or indirectly, a wave of substantial price hikes. Even if a raise in regulated prices occurs, such a raise is unlikely to happen before the last third of the year, and thus it will exert most of its impact on 2025 price trends, instead of the inflation this year.

The inflationary trajectory is unlikely to be a straight-line progress. After the monthly rates of 3.5-4% during the middle of the year, the year-on-year rates are expected to soar to 4.8-5%, mostly due to the low base effect. By December, the monthly inflation rate will likely rise to about 5%.





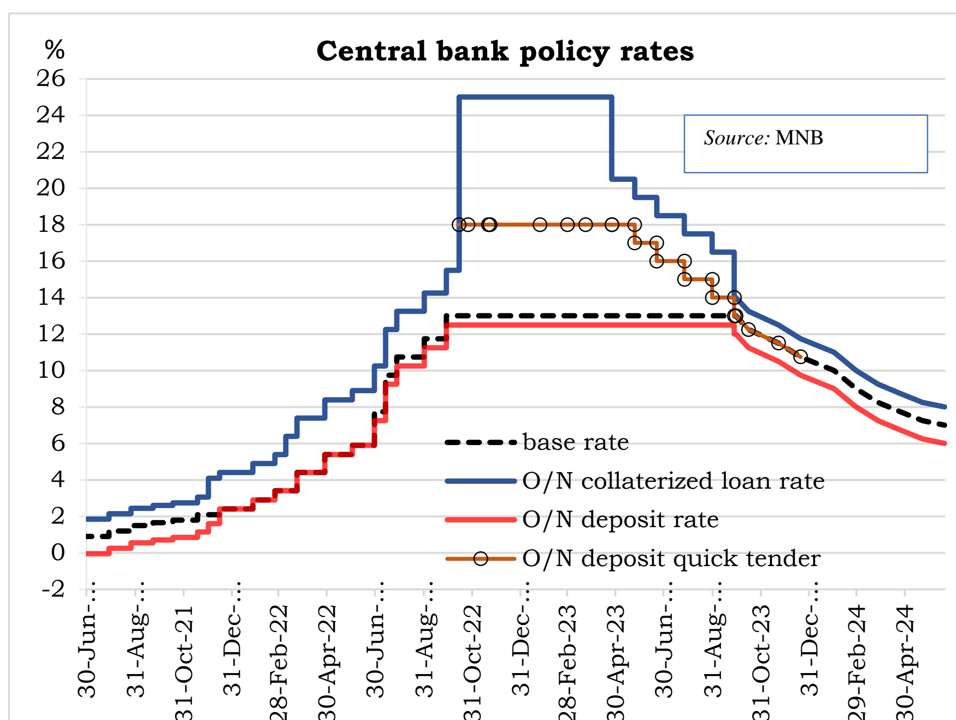
3.3.3. Central bank policy rates

As inflation began to gradually wind down, the **central bank** also started reducing the **effective policy rate** (the overnight deposit quick tender rate) in May 2023 from 18%, a record level reached after the last rate hike in October 2022. With monthly rate cuts by 100 basis points, the O/N deposit quick tender rate reached the level of the official reference rate (13%) in September 2023, and from then, the reference rate regained its key instrument status. From then, the reduction of the reference rate began, at first with monthly cuts by 75-100 basis points and subsequently by 50 basis points. The reference rate dropped to 7% by the end of June. The rate of required reserves has remained aligned with the reference rate, hence it almost reached 7% by June.

The reduction of the O/N deposit rate and the rate on the O/N loan kept pace with the reference rate cuts. The interest rate corridor remains relatively narrow (± 100 bps) and symmetric.

Based on our inflation forecast – an annual rate of 4% in 2024 – the 7% reference rate is still high enough to provide a high real interest rate, therefore further rate cuts are likely during the rest of the year. The central bank has indicated that a new phase of the rate cut cycle was to begin after June, with reduced monthly rate cuts. It is even possible that in some months the policy rate will remain unchanged, or the rate cut will amount only to 10-20 basis points. We predict the reference rate to dip to **5.5-6% by the end of 2024**. Assuming the year-end inflation hovering around 5%, the predicted interest rate level still provides some real returns. If the foreward-looking inflation rate is considered, the real return is higher since inflation is expected to moderate to 3-4% again early in 2025. This will create some room for further rate cuts in 2025.

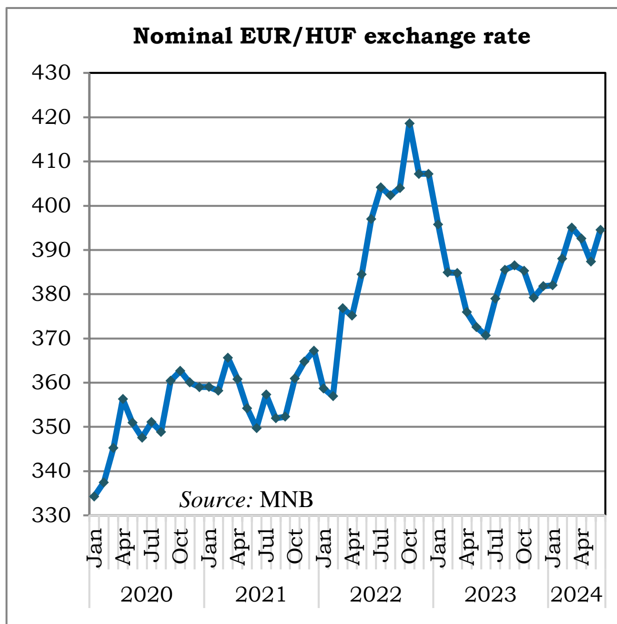
Nevertheless, if the government introducing some inflation-boosting measures, out of fiscal considerations, the rate cut may be smaller.

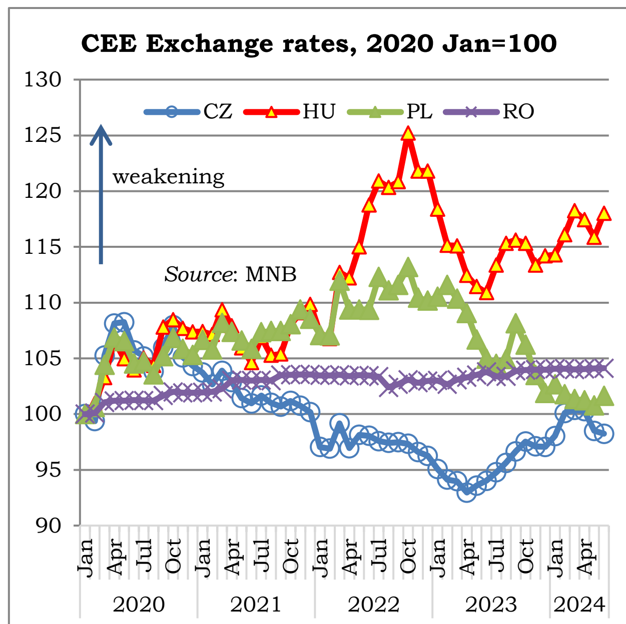


3.3.4. Exchange rate

The euro/forint **exchange rate** hovered around 370-390 EUR/HUF in 2023, with a year-end rate of 382.78 EUR/HUF. By contrast, the euro mostly fluctuated between HUF380-395 in the first half of the year and occasionally got close to 400 (the last time in mid-June). The bilateral exchange rate will likely cross the 400 EUR/HUF threshold before the end of this year.

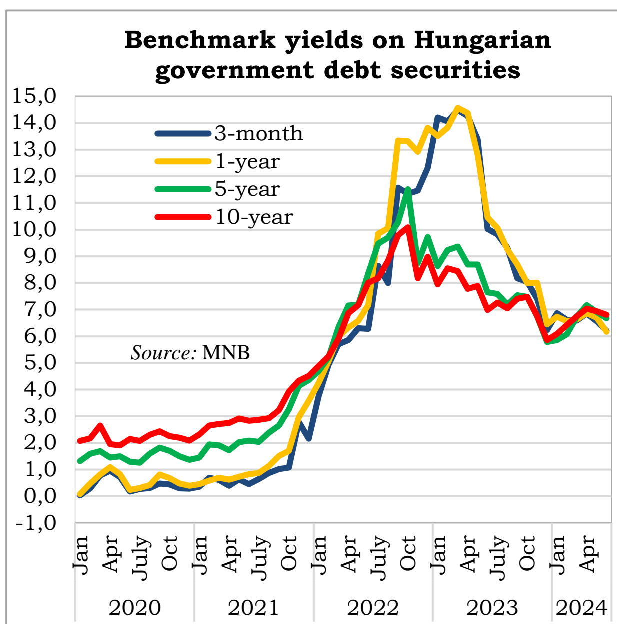
In the region, the Polish zloty has been steadily strengthening since the autumn of 2023. While the Czech koruna has weakened in the past year, this merely resulted in getting close to pre-COVID levels. The stability of the Romanian leu is supported by continuous central bank interventions.

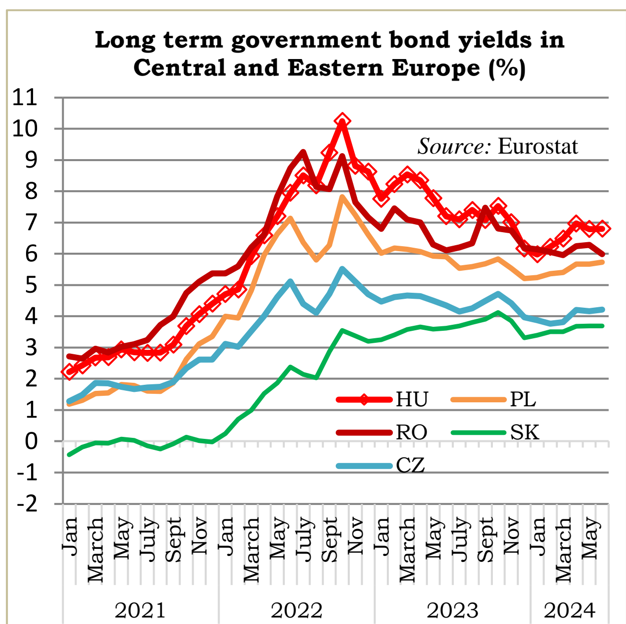




3.3.5. Government yields

The Hungarian government security yield curve remained almost flat in June 2024 (6.5-6.9%). The Hungarian long yields are still the highest in the region and at the end of June, the 10-year yield was higher by some 80 basis points than the Romanian yield.





3.3.6. Corporate and household lending rates

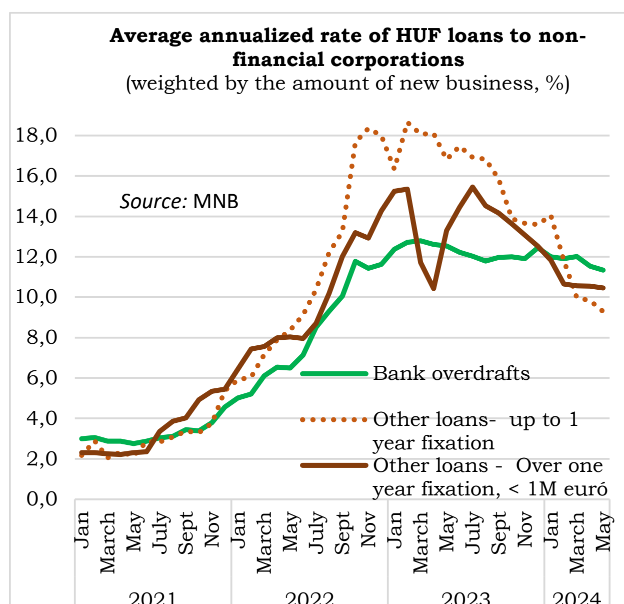
The ongoing reduction in the central bank reference rate and the decreasing benchmark rates have had only a limited impact on the **interest rates of HUF-denominated corporate and household loans**.

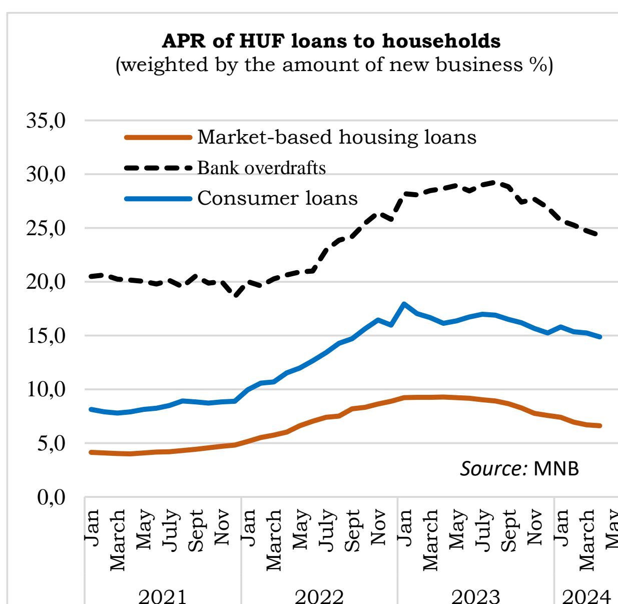
Business lending rates peaked in early 2023 and have gradually moderated afterwards. The interest rate of corporate *overdraft loans*, the most important interest rate regarding working capital financing, did not decrease during 2023, however: it hovered around 11-12% in 2023. From October 9, 2023 onwards, the banks voluntarily introduced an interest rate ceiling, under which overdraft interest rates should have dipped below 10%. This, however, never happened: the overdraft rates slid below 11% only in May 2024. The interest rates of *other loans* were more volatile. The average rate of loans with a maximum of 1-year initial rate fixation was as high as 18% several times in the first half of 2023 but fell below 10% in March 2024. The average rate of other loans of less than EUR 1 billion with long-term rate fixation has also dipped to 10-11%, amid rather subdued borrowing demand.

The APR of *loans for consumption* to households peaked in January 2023, near 18%, followed by a gradual decrease. Since March 2024, it has been hovering around 15%.

The APR of market-priced (non-subsidized) *loans for housing purchases* fell to 6.57% in May 2024 from 9.18% in January 2023. In this case, the voluntary interest rate ceiling – under which the APR of new housing loans was not to exceed 8.5% between October 9 and December 31 2023, and 7.3% after January 1 2024 – has been fully implemented. Meanwhile, the APR of the subsidized housing loans were on a decrease as well, from 15% at the beginning of 2023 to 7.9% in May 2024. In the case of these loans, the bulk of the borrowing costs is covered by the state.

After several months of gathering steam – simultaneously with the easing of lending rates – the monthly amount of new housing loans exceeded the HUF 100 billion threshold in April 2024, the first time since June 2022. However, the aim of 80% of the new housing loans is still the purchase of existing homes; only 15% of the new loans are for purchasing a new home or for building or extending homes.





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