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I. The Global Economy

According to the latest OECD forecast, **global economic growth** will be 3.2% in both 2024 and 2025, amid continuing disinflation, making it possible to keep up monetary easing. While commodity prices are falling, upward price pressures are still present in the services sector. The sentiment indicators paint a much more positive picture in the services sector than in the other sectors, especially manufacturing. Growth rates diverge widely by region. The potential escalation of the various geopolitical conflicts (Gaza, Russo-Ukrainian war) poses serious threat to the prospects of economic growth and world trade and it also keeps the commodity markets in a continuous state of tension. The climate change-induced, increasingly common natural disasters may also hinder economic expansion in many countries and are becoming a constant source of danger.

The growth in **world trade** has halted and the pre-pandemic growth rates are unlikely to return during the forecast period. The protracted logistical problems, the excess inventories and the geopolitical tensions are hindering global trade, along with the EU-China trade war, an additional factor of uncertainty. The present-day trends may prove long-term obstacles to global growth, and the growth rates in world trade may become muted as long as during the rest of this decade.

The **energy commodity index** fell from 102.65 in August to 95.39 in September. The **non-energy commodity index**, by contrast, rose from 109.03 to 95.39. (2010=100) The **global commodity index** as a whole moderated to 100.74 in September from 104.75 in August. To sum up, the downward trend of energy commodity prices has been accompanied by a mixed – and more recently rather upward – trend of non-energy prices.

After a period of inching down in September, the **Brent oil price** rose again, fluctuating within the 73-82 USD band in the first half of October. While the OPEC countries maintain their output quotas, the muted global demand outlook, the weakening of growth in China and the concerns regarding the sluggish industrial activity worldwide exert a downward pressure on oil prices. On the other hand, the escalation of the situation in the Middle East, the fear of an Israeli attack on Iranian energy infrastructure and the unresolved conflict between Ukraine and Russia keeps the oil market prone to hectic price movements. As a result, the rumours about the possibility of oil prices jumping to 100 USD per barrel have resurfaced again. At present we expect an annual average price level of 82 USD for 2024. Oil price may remain approximately flat in 2025 as well, but both upward and downward risks abound.

European gas prices were climbing from March, with prices in August one and a half higher than in February, despite the satisfactory level of inventories in the gas storages. Prices somewhat eased in September but uncertainties remain.

The prices of some of the **non-energy commodities** are on a decline, due to the weak global demand. Food prices are down because of the very muted household consumption while industrial metal prices are pulled downward by the deman shock and the tariffs. Geopolitical tensions and a dearth of stimulus measures do not help either. Some metals, however, may see price hikes due to the anti-climat change efforts and the further spread of electric vehicles.

The ongoing disinflation prompted and increasing number of countries to engagen in **monetary easing**. The US *FED* cut the policy rate as much as 50 basis points in

September, sending the effective FED funds rate to 4.75%-5%, and the markets expect another cut of 50 basis points. But there is no need for haste, despite the disinflation, considering the relatively good condition of the US economy. The *ECB* started the easing cycle with a 25 basis point cut in June, followed by another 25 basis point cut in September. But the ECB revised its growth forecast for both 2024 and 2025 downward and indicated that the rate cuts will not be able to solve the structural impediments to growth. The *British* and the *Chinese* central banks have cut rates as well. By contrast, the *Japanese* central bank raised the interest rates, citing the still relatively high inflation rate. Still, the Japanese central bank is likely to tread cautiously as it does not want to stifle the already weak economic growth. The central banks of the *Central Eastern EU member states outside the eurozone* have also started a cautious monetary easing. But they admit in their communication that they are navigating dangerous waters since price stability in these countries is still on a weak footing. Hence it is possible that some of the central banks within this region will be forced to raise the policy rates again in the future.

The **euro** strengthened against the **US dollar**, due to the steep rate cut by the FED, but the exchange rate fell afterwards, from about 1.11 EUR/USD in late September to below 1.09 EUR/USD by mid-October. The exchange rate will evolve depending on whether the FED continues cutting the rates at a steep pace – as expected by the market participants – and whether the monetary easing continues in the eurozone at an accelerated pace.

The economic picture is mixed **outside the European Union**. The **US economy** is expected to grow at an annual average rate of 2.6% in 2024, but the pace of growth will probably lose some steam after the dynamic growth in the first half of this year. The worsening employment outlook, the slowdown in wage growth and the drying up of savings accumulated during the Covid lockdown will hold back consumption growth. As a result, GDP growth will likely decelerate to a rate below 2% in 2025. In **Japan**, the GDP will probably contract this year, followed by a moderate growth in 2025. The growth performance of Japanese industry is especially weak, and no stimulus is expected from either fiscal or monetary policy. In the **United Kingdom**, the growth rate defied expectations in the first half of the year, mainly due to the dynamism of the tertiary sector. On the expenditure side of GDP, private consumption expanded at a good pace while investments contracted. After the stagnation in 2023, the British economy may expand by 1-1.2% in both 2024 and 2025, with private consumption as the main growth driver. While investments will likely decline this year, they may slightly expand in 2025. The UK also experiences gradual disinflation – the inflation rate is at 2.2% at present, only slightly above the BoE target.

The growth forecasts by international organizations regarding **China** did not change significantly in the last three quarters. The OECD still expects an annual growth of 4.9% in 2024 and a slight slowdown to 4.5% in 2025. Despite the various protectionist measures against China, export is still the main driver of Chines growth. In late September the highest governing body decided upon several measures to stabilize the real estate market, calm the investors and the stock exchanges and improve the purchasing power of the population. The Chinese firms are outsourcing the manufacturing of their simpler and cheaper products at an increasing rate into other low-wage countries. They also outsource the production of their state-of-the-art products (and/or their components) into countries close to their main export destinations.

The growth outlook remains gloomy in the **euro area**. According to the ESI indicator, the sentiment remained pessimistic in both the second and third quarters, especially regarding the manufacturing sector. This mostly due to the weakness of the German economy, but the picture is quite mixed in the other countries as well. The monetary policy is still weighing on growth, even though the rate cut cycle has already begun. The geopolitical tensions add to the sense of uncertainty in the business sector. Households also opt to rather save than spend, even if real household incomes are increasing, thanks to disinflation. The services sector – after serving as a mainstay of growth – has also lost momentum. The eurozone GDP was up 0.7% in the second quarter of 2024 on an annual basis, up from 0.2% in the first quarter, but the quarter-on-quarter growth rate slightly decelerated. Since both the German and the Austrian GDP will decline this year, we expect the eurozone GDP to grow only by 0.8% in 2024, with a slight acceleration, to 1.2% at most, in 2025. In the EU27, the respective growth rates may be 1% and 1,4%.

The *inflation* rate keeps moderating: the annual average rate will likely stay slightly above 2% in both 2024 and 2025. Energy and commodity prices pose an upward risk: they are mostly decreasing now but this can change at any time, due to the geopolitical tensions. the core inflation rate will remain higher, due to the still high – and sometimes rising – prices of services. The moderation of wage pressures may lead to a substantial easing of core inflation in 2026.

The *labor markets* are still tight: the near-6% unemployment rates can be considered very good in light of the very modest growth outlook, and the recent months saw record-low unemployment rates as well. Except of Greece and Spain, labor shortages, rather than unemployment, is the main concern now.

Fiscal policy faces the challenge of fiscal consolidation in most eurozone countries. The various emergency programs in the recent years have put a strain on the national budgets, but the structural deficit is very high as well in several countries. The fiscal rules, after being suspended during the crisis years, are now back in force, which resulted in the launching of excessive deficit procedures against four euro area member states.

The **German** economic outlook has deteriorated further since our summer forecast. After a decline of 0.3% in 2023, the German GDP is expected to slide further, by 0.2%, in 2024 and stagnate at best in 2025. Accordingly, the sentiment indicators point downward: the IFO business climate indicator has been on a decline since May, with pessimistic assessments of both the present situation and the future outlook. Manufacturing firms are particularly pessimistic: the sentiment indicator has not been as low as now since June 2020. In principal manufacturing sectors like the auto and chemical industry, the mood has been worsening for months. But even the services sector has become gloomier, especially regarding the future perspectives. All expenditure components of GDP point downward. Private consumption and investments are likely to keep decreasing even in 2025 while government consumption and export may improve somewhat. Households are still cautious and hold back their spending, despite the rising real incomes. The market uncertainties and the still relatively unfavorable financing conditions prompt the enterprises to keep low their investment activity, hence investments will decline in both 2024 and 2025.

II. The new EU member states (EU13)

The new EU member states posted a seasonally adjusted growth rate of 2.2% in the second quarter, a clear improvement compared to the 1.8% in the first quarter but still well below the average rates seen in the pre-pandemic years. The former growth champion, *Estonia*, has been undergoing a 9-quarter recession spell, with another decline of 1.3% in the second quarter. A positive turnaround is possible by the end of this year in the Baltic state, but only because of the low base effect. *Latvia* also posted a negative unadjusted year-on-year growth rate (-0.5%) in the second quarter, but in Latvia a protracted recession is unlikely.

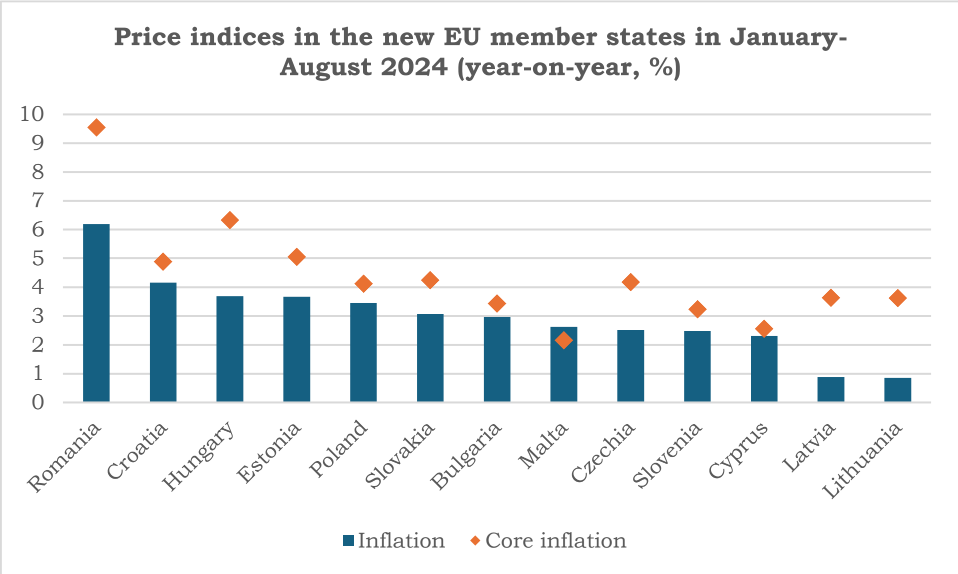
Poland, with its seasonally adjusted growth rate of 4%, contributed more than half of the regional growth rate in the second quarter. Only Malta surpassed the Polish growth, with a rate of 4.2%, although the contribution of the island country to regional growth is negligible. In Poland, both consumption and investment serve as strong drivers of growth. The largest investment project in the history of the country (Intel chip plant) is about to start in the autumn but the work will begin in earnest only in 2025, providing a substantial growth impulse to Poland and the EU13 block as well.

In addition to the good tourist season, infrastructural investments contributed to economic growth in *Croatia*. The country posted a seasonally adjusted 3.2% in the second quarter, the fourth highest growth rate in the country bloc after Malta, Poland and Cyprus. Although the adoption of the euro (in January 2023) still weighs on private consumption, the government could offset this downward effect with well-timed, mostly EU-financed large-scale investment projects. While several structural reforms are still needed (in education and healthcare), the country has managed to get on a growth trajectory that will probably result in catching up quickly to the EU average.

In the meanwhile, *Czechia* has been the “sick man” among the nem member states for several quarters by now. The seasonally adjusted growth rate of 0.6% in the second quarter is way below the regional average and the third lowest after Estonia and Latvia. There are serious structural issues in the background, and the global auto industry slowdown is only one of them. The Czech economy is too energy-dependent, and much of the energy comes from Russian sources. All this weighs down on investment activity, even though the central bank tries to stimulate investments by a series of rate cuts. The monetary easing cycle has started at the end of the last year – by now, the reference rate has been reduced to 4.25% from the initial 7% in December 2023. Nevertheless, investments keep declining while the private consumption growth rate seems to stabilize around 2%. All this is reflected in a net export surplus which helped the country avoid recession, but the growth outlook is quite subdued.

Romania is in a similar situation, with a growth rate of merely 0.9% in Q2, even if private consumption soared by more than 7%, the highest pace among the EU13 countries. But this consumption growth resulted in a similar rate of import growth while Romanian exports fell by about 3%, leading to a deterioration of the trade balance. This means that the stimulus measures to cushion the inflationary shock successfully prevented a fall in consumption but could only partially provide an overall positive growth impulse.

Inflation seems to keep moderating in the country block, with the exception of Romania. In January-August, the regional average was 3.4%, which is tolerable, but that is in part a result of the subdued (or even negative) consumption growth in several countries. The core inflation rate, however, is still at 5%, and in most countries it surpasses the headline rate. This means that the inflationary pressure is far from over, and higher inflation rates may return with a strengthening of consumer demand.



The central banks of the non-euro countries, along with the ECB, started reducing interest rates cautiously but the monetary councils admit in their commutication that they are treading dangerous waters, supporting the government economic policies while the price stability is still far from secure. Therefore, we do not rule out the possibility that some central banks will be forced to raise interest rates again in 2025.

Although we expect some acceleration of growth in the EU13 countries, this prediction is marred with uncertainties, mostly downward risks. A further spread of the conflict in the Middle East can easily lead to a jump in energy prices, which in turn would trigger a weakening in consumption and investment demand. Another serious risk is a potential overshoot of the monetary easing, although an excessively tight monetary policy may backfire as well. Assuming that the aforementioned risks do not materialize, GDP growth may accelerate to 3.2% in the EU13 in 2025, up from **2.3% this year**. Inflation may hit 3.6% in both years.

Table 2/1.

Economic Growth in the EU Member States

(Percentage change of real GDP over the previous year)

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

	Weights	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	2.0
France	16.7	2.1	1.3	0.5	2.1	5.9	5.7	2.6	2.1
Italy	14.2	1.2	0.6	-0.1	1.9	8.7	5.9	1.3	2.2
Netherlands	5.1	1.6	2.7	1.1	2.8	11.6	4.1	2.9	2.2
Belgium	3.4	2.3	1.2	0.4	3.2	10.3	2.3	3.4	2.1
Luxembourg	0.3	2.0	1.6	0.0	3.5	8.2	2.9	2.2	1.9
Ireland	1.6	0.7	0.9	-0.5	2.4	8.1	5.2	1.9	2.0
Greece	1.7	0.8	0.5	-1.3	0.6	9.3	4.2	2.3	1.9
Spain	9.2	1.7	0.8	-0.3	3.0	8.3	3.4	3.0	2.1
Portugal	1.9	1.2	0.3	-0.1	0.9	8.1	5.3	2.3	2.1
Austria	2.7	2.1	1.5	1.4	2.8	8.6	7.7	2.9	2.3
Finland	1.6	1.2	1.1	0.4	2.1	7.2	4.3	1.2	2.4
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	2.5
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	1.4	2.5
Lithuania	0.5	2.5	2.2	1.1	4.6	18.9	8.7	0.9	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**	**2.3**	**2.1**
Denmark	1.9	0.7	0.7	0.3	1.9	8.5	3.4	1.9	2.2
Sweden	2.7	2.0	1.7	0.7	2.7	8.1	5.9	2.1	2.0
Hungary	**1.1**	**2.9**	**3.4**	**3.4**	**5.2**	**15.3**	**17.6**	**3.7**	**3.7**
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	3.6	4.5
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	2.7	2.5
EU14	**86.5**	**1.9**	**1.3**	**0.4**	**2.6**	**7.8**	**5.3**	**2.3**	**2.1**
New EU13	**13.5**	**2.3**	**2.7**	**2.7**	**4.4**	**13.9**	**10.8**	**3.6**	**3.6**
EU27	**100.0**	**1.8**	**1.4**	**0.7**	**2.9**	**9.2**	**6.4**	**2.5**	**2.3**
Memorandum items [a]									
USA		2.4	1.8	1.4	4.7	8.0	4.1	2.4	1.8
Japan		0.5	0.5	0.0	-0.3	2.5	3.3	2.5	2.1
United Kingdom		2.5	1.8	0.8	2.6	9.1	7.3	2.7	2.4
China		2.0	2.9	2.5	0.8	1.9	0.4	0.3	1.0
Russia [b]		2.9	4.5	2.6	5.9	13.8	6.0	7.8	5.5
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
EU14 = Countries that joined the European Union before 2004
New EU13 = 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)

	Weights	2018	2019	2020	2021	2022	2023	2024*	2025*
Germany	20.1	3.4	3.1	3.6	3.6	2.7	2.9	3.4	3.3
France	14.2	9.0	8.4	8.0	7.9	7.3	7.3	7.5	7.3
Italy	11.7	10.6	10.0	9.6	9.6	8.2	7.7	6.8	6.4
Netherlands	4.5	3.8	3.4	3.3	4.2	3.4	3.5	3.6	3.4
Belgium	2.4	6.0	5.4	6.4	6.3	5.6	5.6	5.0	5.5
Luxembourg	0.2	5.6	5.6	5.8	5.5	4.7	5.0	5.7	5.5
Ireland	1.1	5.8	5.0	6.7	6.3	4.8	4.1	4.4	4.3
Greece	2.1	19.3	17.3	15.3	14.8	12.5	11.0	10.2	9.8
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	6.0
Austria	2.2	4.9	4.5	6.4	6.2	4.6	6.4	5.0	4.8
Finland	1.3	7.4	6.4	7.7	7.7	6.7	7.0	8.3	7.8
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	5.6	5.1
Sweden	2.6	6.4	6.8	8.9	8.8	7.4	7.4	8.3	8.0
Hungary	2.3	**3.6**	**3.3**	**4.1**	**4.1**	**3.7**	**4.1**	**4.5**	**4.3**
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**	**6.5**	**6.2**
New EU13	**22.8**	**4.5**	**4.1**	**4.4**	**4.6**	**4.1**	**4.1**	**4.2**	**4.1**
EU27	**100.0**	**7.4**	**6.8**	**7.2**	**7.1**	**6.1**	**6.0**	**6.0**	**5.7**
Memorandum items[a]									
USA		3.9	3.7	8.1	5.4	3.6	3.6	4.1	4.5
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	4.0	4.3
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
South-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

New EU13 = Countries that joined the European Union in 2004, 2007 and 2013

Source: Eurostat, national statistical offices, ILO, OECD

Macroeconomic indicators for Hungary and Kopint-Tárki forecast
(year-on-year change, percentage)

	Data					Forecast		
			2024			2024		2025
	2022	2023	Q1	Q2	Q3	2024 July	2024 Oct.	2024 Oct.
GDP aggregates, real growth								
GDP total	4.3	-0.9	*1.1*	*1.5*	*-0,8*	2.5	**0,6**	**2.8**
Domestic Demand	4.3	-5.6	*-3.1*	*0.9*		2.2	**0.8**	**2.9**
Private Consumption	6.4	-0.7	*2.5*	*2.9*		3.8	**3.2**	**3.5**
Public Consumption	0.7	3.9	*-2.8*	*-2.5*		-0.9	**-1.8**	**0.5**
Gross Fixed Capital Formation	0.9	-7.8	*-7.3*	*-15.3*		0.0	**-8.4**	**2.1**
Gross Capital Formation	1.7	-17.1	*-20.5*	*-3.4*		-0.2	**-5.9**	**2.5**
Export	10.7	1.5	*-5.4*	*-2.1*		0.8	**-2.2**	**2.6**
Import	10.7	-3.8	*-9.4*	*-3.4*		0.4	**-3.2**	**2.8**
Industrial production	6.1	-5.5	*-3.9*	*-2.7*	*-5.4* [e]	0.3	**-3.0**	**3.7**
Consumer Price Index	14.5	17.6	*3.7*	*3.8*	*3.5*	4.0	**3.7**	**3.7**
Employment, earnings								
Number of Employed, growth [a]	1.3	0.6	*0.6*	*0.5*	*0.0*	0.5	**0.2**	**0.3**
Unemployment Rate [a]	3.6	4.1	*4.6*	*4.3*	*4.6*	4.3	**4.5**	**4.3**
Unit Labor Costs, in EUR [b]	1.3	26.1	*17.4*	*12.6*		7.8	**10.3**	**2.9**
Gross Nominal Wages [c]	17.4	14.2	*14.2*	*13.9*	*13.5* [e]	13.2	**13.5**	**7.3**
Net Real Wages [c]	2.5	-2.9	*10.1*	*9.7*	*9.4* [e]	8.8	**9.5**	**3.5**
Savings Rate, % of GDP [d]	4.3	7.0	*7.1*	*7.4*		6.6	**6.6**	**5.9**
Current and Capital Accounts Balance, % of GDP	-6.7	1.6	*2.8* [f]	*3.3* [f]		3.0	**3.0**	**2.5**
General government Fiscal Balance, ESA-2010, % of GDP	-6.2	-6.7	*-5.1*	*-2.3*		-5.5	**-5.0**	**-4.5**
Gross Government Debt, % of GDP	73.8	73.4	*76.0*	*75.8*		73.4	**74.0**	**72.5**
Short-term Government Yields (3M), eop	12.32	6.23	*6.59*	*6.21*	*5.46*	6.0	**6.0**	**5.5**
Long-term Government Yields (10Y), eop	8.98	5.86	*6.74*	*6.81*	*6.29*	6.5	**6.5**	**5.5**
External assumptions								
Internat. Trade in Goods and Services [d]	5.4	0.4				3.0	**3.1**	**3.4**
Brent Oil Price ($/bbl, p. avg.)	100.9	82.5	*83.0*	*84.6*	*79.8*	86.0	**82.0**	**84.0**
GDP Real Growth, Eurozone	3.4	0.5	*0.2*	*0.7*		0.8	**0.8**	**1.2**
GDP Real Growth, New EU Members	4.0	0.6	*1.5*	*2.4*		2.6	**2.3**	**3.2**
EUR-HUF, period average	391	382	*388*	*391*	*394*	392	**394**	**410**
EUR-USD, period average	1.05	1.08	*1.09*	*1.08*	*1.10*	1.08	**1.09**	**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 July-August
f Seasonally adjusted data by the MNB

III. The Hungarian Economy

After the subdued growth numbers in the first quarter of 2024, second-quarter growth rates continued to disappoint: GDP climbed 1.5%, only slightly up from 1.1% in the first quarter. The seasonally and working-day adjusted year-on-year growth rate was 1.3%, a deceleration from Q1. Compared to the previous quarter, GDP dropped by 0.2%.

Much of the shortfall from previous expectations was due to the weakness of domestic demand. ***Household consumption expenditures*** grew by only 4.2% in the second quarter, a less-than-impressive acceleration from the first quarter, indicating cautious attitudes among households, despite the steep growth in household real incomes. This, however, was not the surprising part. The steep fall in government-provided transfers in kind, on the other hand, heavily weighed on **actual household consumption**, dragging its growth rate to only 2.9% in the second quarter – well below previous expectations.

An even more spectacular miss was the precipitous fall in ***gross fixed capital formation***, which dropped by more than 15%, instead of the expected moderation following a contraction of 7% in the first quarter. Even though the *change in inventories* started to positively contribute to growth, overall ***domestic use*** could only grow by 0.9% in the second quarter.

At the same time, the growth contribution of ***net exports*** substantially decreased in the second quarter, since the moderation of the decline in imports was more pronounced than in exports. Still, net exports enabled the GDP growth rate to reach 1.5%, despite the anemic expansion in domestic demand.

However, the fact that the volume of goods exports continued to decrease by 3.7% in the second quarter was clearly linked to the protracted weakness of industrial activity – especially industrial export sales. The auto and battery industries, the two flagships of Hungarian manufacturing, continued to face bleak external demand conditions.

The dire industrial and export outlook also explains the acceleration of investment decline. The most prominent factor behind this acceleration was the dramatic plunge in *manufacturing* investments, reflecting growing pessimism among export-oriented industrial firms.

On the production side of GDP, apart from the industrial decline, the failure of the **services** sector to gather steam was another striking feature of the second quarter. *Market services* growth even decelerated somewhat compared to the first quarter. **Construction** growth accelerated slightly – temporarily – but **agriculture** was once again hit by severe heatwaves and droughts, as in 2022.

But as disappointing as the second-quarter growth data was, the **third quarter** seems to be much worse. According to the first estimate by the CSO, the unadjusted GDP dropped by 0.8% year-on-year in the third quarter, while the quarter-on-quarter growth rate was -0.7%, the worst among EU member states according to the data known so far.

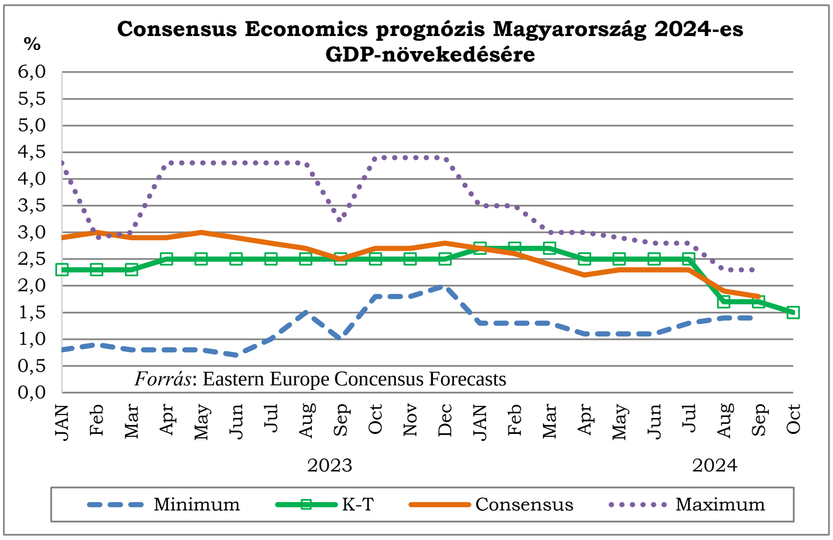
No quantitative data on the components of this dramatic deterioration are available yet, but the CSO says that industry, agriculture, and construction all posted negative growth, with their combined growth contribution amounting to about -2 percentage points. This, however, also implies that services growth remained anemic – it may have even decelerated compared to the first and second quarters. This seems to confirm the suspicion – based on retail, domestic tourism, and food service data – that *consumer* *consumption demand* is an even shakier driver of economic growth in 2024 than suggested by the underwhelming second-quarter GDP data.

Additionally, while early in the summer there was hope that gross capital formation would at least stagnate this year, the second-quarter plunge in fixed investments and the third-quarter drop in GDP make it clear that capital formation will be a major drag on economic performance, even if the positive turnaround in the inventory cycle observed in the second quarter continues for the rest of the year.

A weaker-than-expected consumption demand and a continued decline in investments means that ***domestic use*** probably stagnated in the third quarter, and it will likely *stagnate in 2024 as a whole* – contrary to earlier expectations.

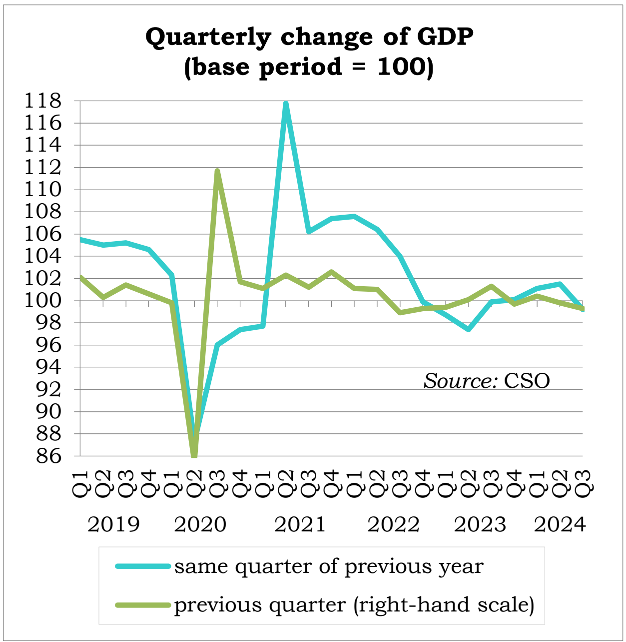
On the other hand, July and August external trade data suggest that the negative trend in relative changes in export and import dynamism continued: the previous decline in imports may have come close to stagnation in the third quarter, while the decline in exports may have continued at a somewhat more moderate pace. In the second half of the year, the growth contribution of net exports is expected to be negative, even if – following an almost imperceptible improvement in export conditions – the contraction in exports comes to an end in the fourth quarter.

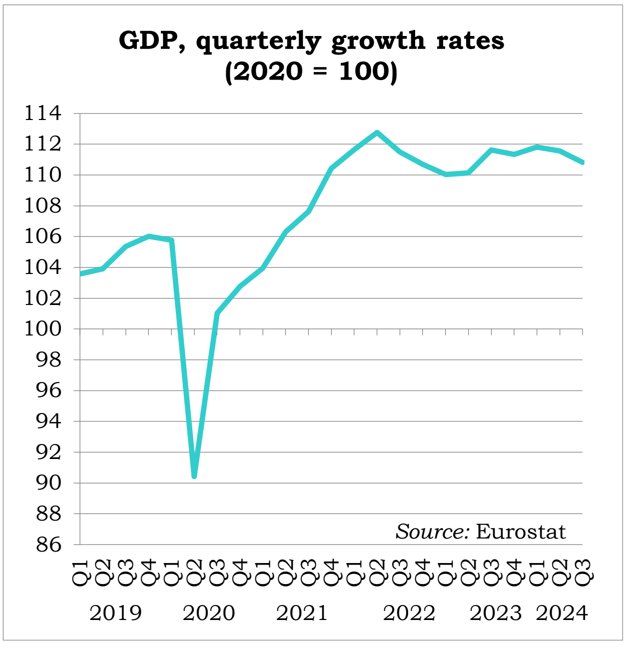
Due to these developments, we had to **drastically revise downward** our summer growth forecast. We now expect annual growth of **only 0.6% in 2024**. This is much more pessimistic than the October consensus of forecasters, although the latter is also likely to undergo a dramatic revision in November. GDP growth will gather some momentum in **2025**, but the growth rate is likely to remain below 3%, as neither domestic nor export demand will provide sufficient support for a more spectacular expansion.



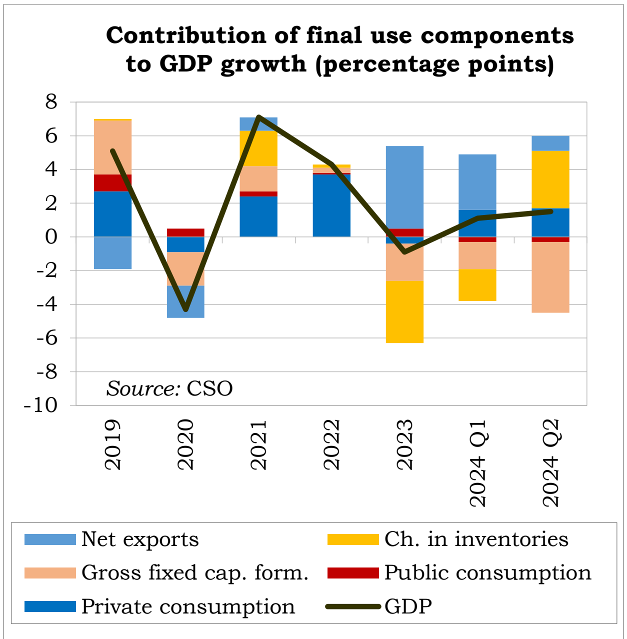
3.1. The GDP and its components

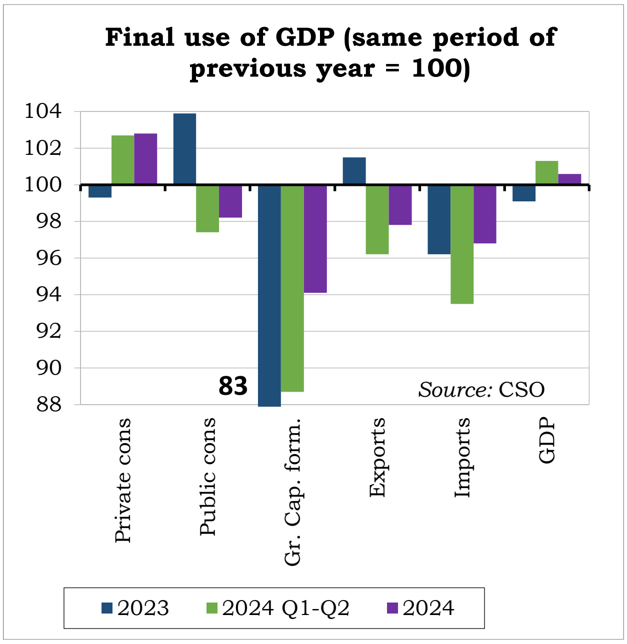
In the second quarter of 2024 the year-on-year growth rate accelerated to 1.5% in the second quarter from 1.1% in the first quarter. (The *seasonally and calendar adjusted GDP growth* decelerated to 1.3%.) Compared to the *previous quarter*, on the other hand, the GDP decreased by 0.2% in the second quarter. The second-quarter numbers were a negative surprise compared to the forecasters' consensus. In the *first half of 2024*, the GDP climbed by an average 1.3%





On the **expenditure side**, the ***final domestic use*** started to grow at last but the pace of growth remained below 1%. On the other hand, the positive contribution of net export to economic growth fell by more than two thirds. The combined result was that the overall GDP growth could only accelerate by a couple of tenth of percentage points in the second quarter compared to the first.





The growth in the largest domestic component, the *consumption expenditures of households*, accelerated to 4.2% in the second quarter (from 3.6% in Q1), indicating a gradual easing of the households' cautiousness amid a healthy rise in household incomes. But still, the pace of consumption expenditure growth was quite moderate compared to the real wage and real income growth rates, while the net financial savings of households continued to rise as well. On the other hand, the volume of transfers in kind given by the government to households fell considerably, and as a result, the ***actual consumption of households*** grew at a *rate as low as 2.9%* in the second quarter, up from 2.5% in the first.

Gross fixed capital formation was a source of another negative surprise: the fall in fixed investments, instead of moderating, even accelerated to above 15% in the second quarter. This was primarily caused by the strong contraction of business investments by about 15%, after growing at a moderate pace in the first quarter. Pessimism has taken hold of the export-oriented firms, prompting them to assume a wait-and-see stance. By contrast, the inventory cycle took a strong positive turn – as a result, *total capital formation* decreased in the second quarter at a much lesser pace than in the first quarter.

At the same time, the positive contribution of ***net export of goods and services*** to GDP growth decreased to merely 0.9% in the second quarter (from 3.3% in Q1). The improvement in export growth – that is, the slowdown in the fall in exports – fell short of expectations in the second quarter while at the same time, the fall in import decelerated spectacularly. As a result, the difference between the respective export and import growth rates decreased by 1.5 percentage point, a combined consequence of the slowly strengthening domestic demand and the continued weakness of external demand.

On the ***production side*** of GDP, industrial growth continued to disappoint, with only a modest deceleration in industrial decline (to -2.5% in Q2), mostly because of the declining industrial export sales. (It should be added that domestic sales also kept declining in the second quarter, but at a more moderate pace.) The main drag on industrial growth is the E-mobility sector, especially the battery industry. Construction growth gained some momentum, but agriculture has been heavily hit by the unfavorable weather conditions.

Even more striking is, however, the lack of improvement in *services* – despite the modest acceleration in private consumption expenditures, the growth rate in *market services* even lost some speed in the second quarter. While the trade sector started to grow at a subdued pace, information & communication services slowed down sharply and growth decelerated in the transport-storage, real estate and professional-scientific-administrative sectors as well.

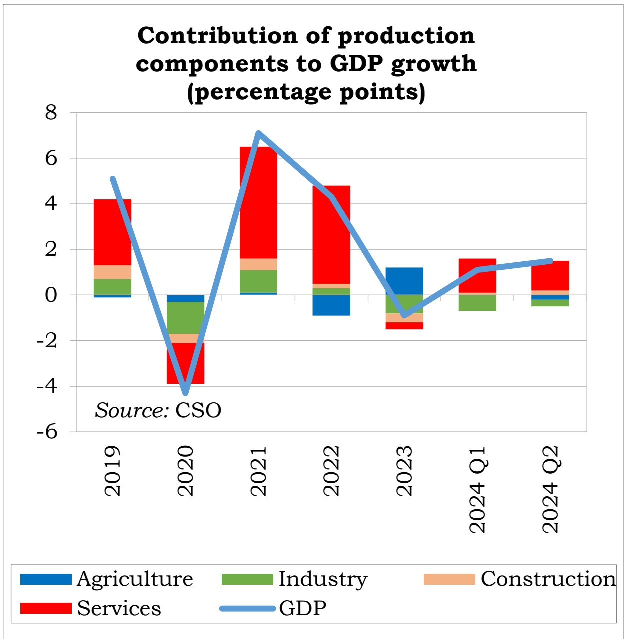
According to the recently released first estimate, the growth performance in the *third quarter* was another stunning disappointment, with year-on-year drop of 0.8% and a quarter-on-quarter fall of 0.7%. No quantified date about the GDP components are available yet but it is known that – in addition to the agricultural plunge – the contraction in industry became more severe and construction growth turned into a decrease. What is more, services growth failed to gain traction again. It is possible that *consumption growth decelerated* in the third quarter – indicating a negative turnaround in households' attitude – domestic demand may have stagnated, and yet, the formerly positive contribution of net exports may have turned into negative.

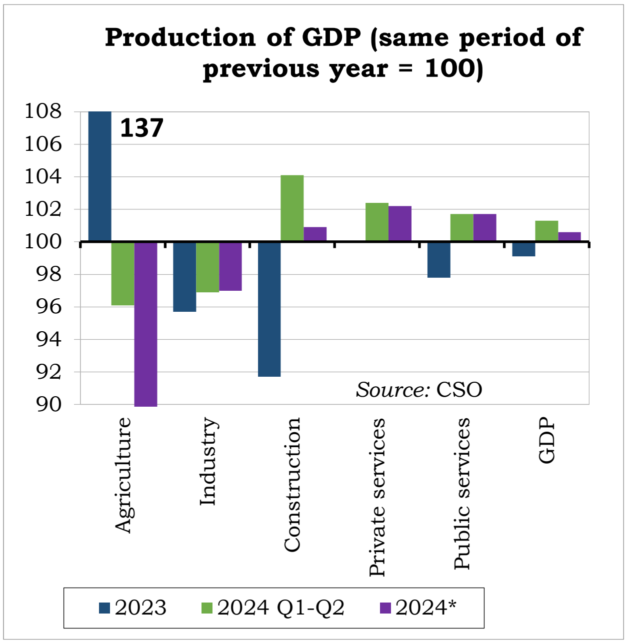
As a result, the growth outlook for **2024** is much bleaker now than 3 months ago. The average growth rate in the first three quarters was 0.6%, and there is no guarantee that the fourth-quarter growth rate will be any higher. Even if final domestic use picks up some pace in the fourth quarter, it may stagnate in 2024 as a whole. Private consumption growth is unlikely to reach 3% while fixed capital formation may decline by 8-9%. (We expect the upward phase of the inventory cycle to continue, hence the decline in overall capital formation is likely to be milder.)

At the same time, net export will probably negatively contribute to GDP growth in the fourth quarter as well: imports may start to expand, albeit at a very modest pace while export will stagnate at best. in 2024 as a whole, however, the growth contribution of net export will be likely positive, which will help the GDP to grow minimally amid stagnating domestic demand.

On the *production side*, the services growth outlook is more subdued now than before, as private consumption apparently fails to gather sufficient momentum. An annual services growth rate of about 2% will be accompanied by the steep fall in agriculture, an industrial contraction of about 3% and some negligible growth in construction.

To sum up, we **revised our GDP growth forecast for 2024 downward to 0.6%.** The growth rate may accelerate to 2.5-3% in 2025. The relentless further escalation of geopolitical tensions and conflicts pose a significant downward risk to the European and the Hungarian economy.



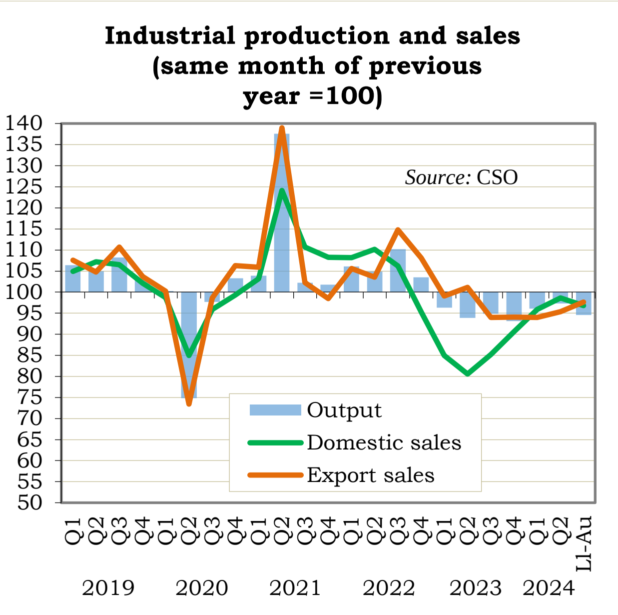


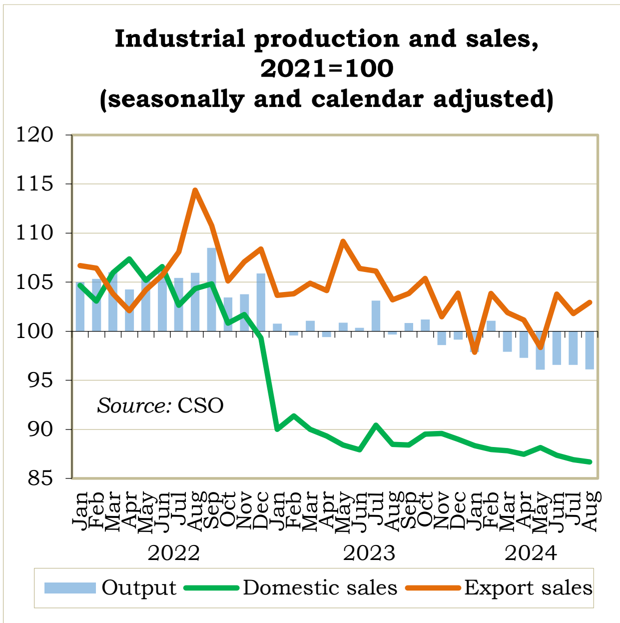
3.2. The production of GDP

3.2.1. Industry

At the beginning of this year, the forecasters unanimously expected a modest industrial recovery after the decline in 2023. This expectation has proved illusory. Industrial production was down 3.8% in January-August. The fall was steeper in the case of export sales (-4.6%), but domestic sales also dipped by 2.3%, and even this milder decrease is due to the statistical base effect. The seasonally adjusted data shows that domestic sales still continue to edge downward, despite the upturn in household consumption and domestic use as a whole. At the same time, export sales have failed to gather momentum after the downward shift in the much of 2023, and the international economic developments are not encouraging about the perspectives of export demand either.

The downturn in battery industry is clearly the primary factor behind the industrial decline: the output of the electrical equipment industry – which includes the production of batteries – dropped by nearly 13% in January-August, the steepest rate among the manufacturing sectors. The second-highest rate of decrease (9%) took place in the production of machinery, while the output of the automotive sector was down 7,5%. Only 3 manufacturing subsections – out of 13 – achieved positive growth in the first eight months of 2024. Food industry output growth was helped by the upturn in agricultural output in 2023. The output of the chemical industry – after the steep downturn in 2022-2023 – started to grow at a very modest pace as well.

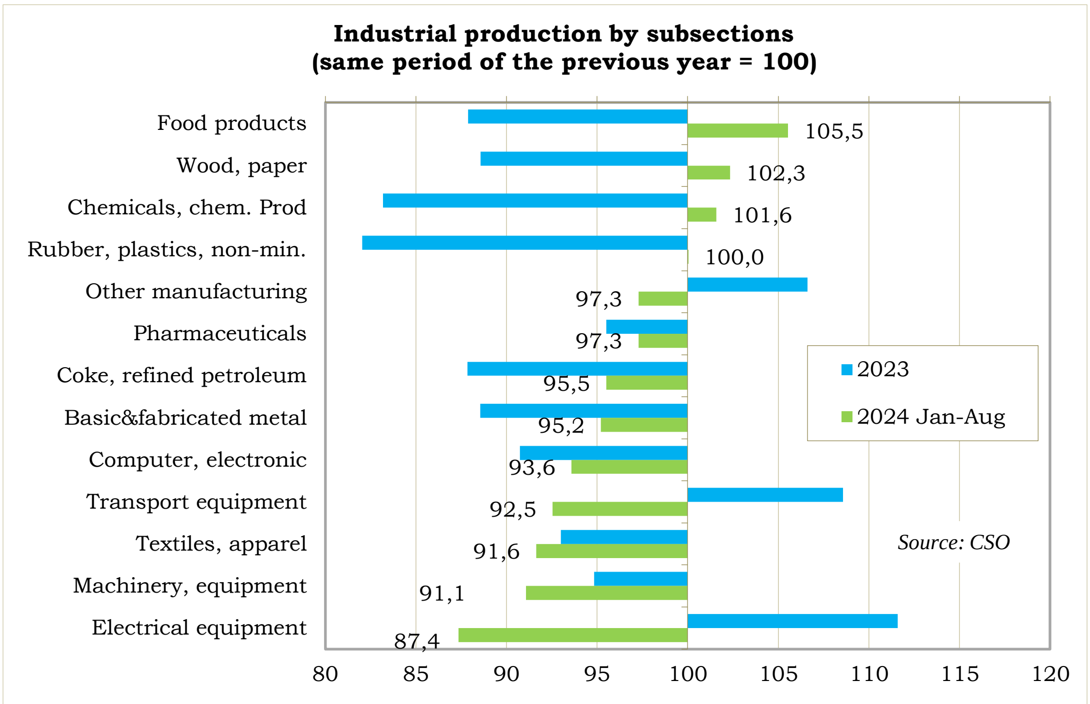




According to the seasonally adjusted data, the output of electric equipment industry (dominated by battery industry) underwent a drastic meltdown between October 2023 and May 2024, mostly due to the plummeting in export sales. The subsequent three months saw a degree of recovery, even if it is not yet reflected in the unadjusted year-on-year volume indices. It is unclear whether the recent improvement is a harbinger of a real trend change or mainly a post-plunge correction – the international environment does not yet seem to support a new growth cycle in the battery and generally the electromobility sectors. In any case, there is no sign of a similar upturn in the export sales in the automotive subsection – but it is also true that nothing like the plunge in the electric equipment industry was observed in the transport equipment industry, either.

In the last third of the year, domestic sales may start to recover, due to some strengthening of domestic demand, but even so, on a year-on-year basis, stagnation is more likely than return to growth. Approximately the same can be expected in the case of export sale, mostly due to a year-end lowering of the statistical base, unless some new external shock occurs – the reverberating effects of the escalation of the conflict in the Middle East, for example.

On the whole, we expect a decrease of about 3% in industrial output for 2024. The next year, industrial growth is likely to return, but the chance of the growth rate to reach 3% is questionable in light of the continuing weakness of the global and European economy.



3.2.2. Construction

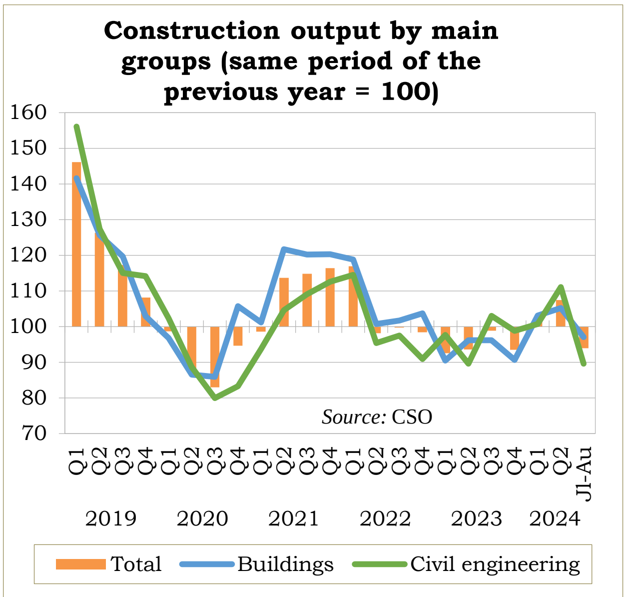
After a steady decline in 2023, construction output grew moderately in the first quarter and gained some momentum in the second. The acceleration in the second quarter was mainly due to a temporary upturn in civil engineering activity. On the whole, however, much of the registered year-on-year growth was due to the statistical base effect. The seasonally adjusted volume data hardly showed any upward trend even before June – in *June-August*, in turn, the trend became clearly negative, especially in civil engineering. In *January-August*, the average growth rate was merely 2.2%.

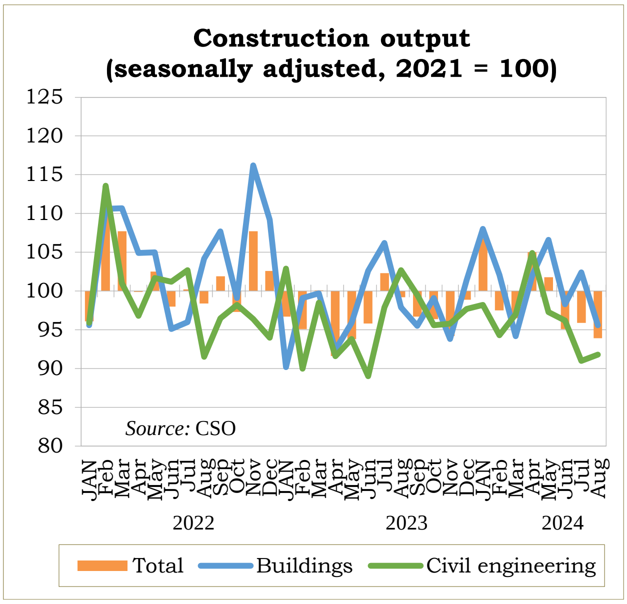
For the construction sector, the primary hindering factor is the lack of sufficient demand. Despite the modest output growth, the majority of firms reported decreasing sales revenues and worsening profitability in the first half of the year. Weakening demand affects even the sector of industrial and logistical properties, although the industrial investments by Asian firms may ensure the continuing expansion of construction activity in this particular segment. The civil engineering sectors suffers from the dearth of ***state investments***, a result of the freezing of most investment projects by the government, due to the mounting fiscal constraints.

The fact that the volume of the *newly started* construction projects fell in the second quarter on an annual basis (according to the iBuild database) reinforces the gloomy overall picture. The fall was especially stark in the civil engineering sector.

The longer-term outlook, on the other hand, is somewhat more encouraging in civil engineering, with the volume of orders growing since February on an annual basis. In the construction of buildings, on the other hand, the volume of orders has been declining in 2024, except for two months during the spring.

At present, we expect a very modest yearly growth rate of **about 2% in 2024**. It is still unclear to what extent the growth can gain momentum during the next year, considering that state investments will remain subdued.



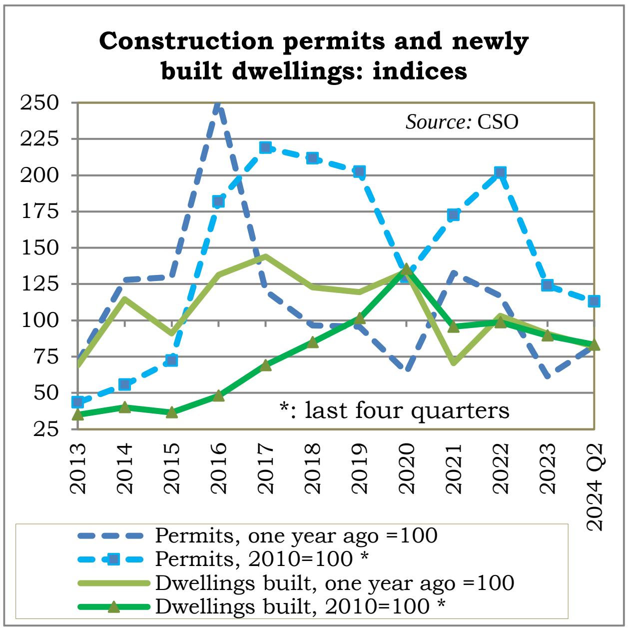


3.2.3. Housing construction

After the short-lived upturn in Q4 2023, the first two quarters of this year saw a return of the downward trend: the number of *dwellings newly built dwellings* fell by an average 18% in the first half. Both the number of homes built by enterprises and natural persons decreased. During the four quarters from Q3 2023 and Q2 2024, a total of 17,321 dwellings were completed, the lowest number since 2017. The number of *housing construction permits/notifications* also fell, even though the rate of decline (17.5% in the first half of 2024) moderated from the plunge seen in 2023.

It is somewhat encouraging that the volume of *newly started multi-dwelling construction projects* was slightly higher in the first half than one year before, according to the iBuild database, even if it was way below the levels seen in the years preceding 2023.

Housing demand is on the rise from the nadir seen in 2023. Financing conditions have also improved, due to the several rate cuts, and housing lending has gained momentum. The purpose of most new loans is still to *buy existing homes*, however, instead of renovating or buying new homes. As a result, the upturn in demand still does not provide much of a stimulus for housing construction activity. The new measures to facilitate access to the family housing subsidy (CSOK) from October 2024 and especially the *exemption of the withdrawal of pension savings for housing purposes from taxation* from January 2025 will give a further boost to housing demand.



Sooner or later, these measures, along with the continuing growth in household incomes, will help uplift the demand for new dwellings. In addition, the MNB raised the possibility of relaunching the Green Home loan subsidy program in 2025 – the materialization of this plan would also have a dynamizing effect. As a result, the number of housing construction permits is likely to start to rise in 2025 but a marked positive turn in the number of dwellings built will probably occur in the subsequent years. As for the **rest of this year**, we can hope for moderation in the speed of decline at best.

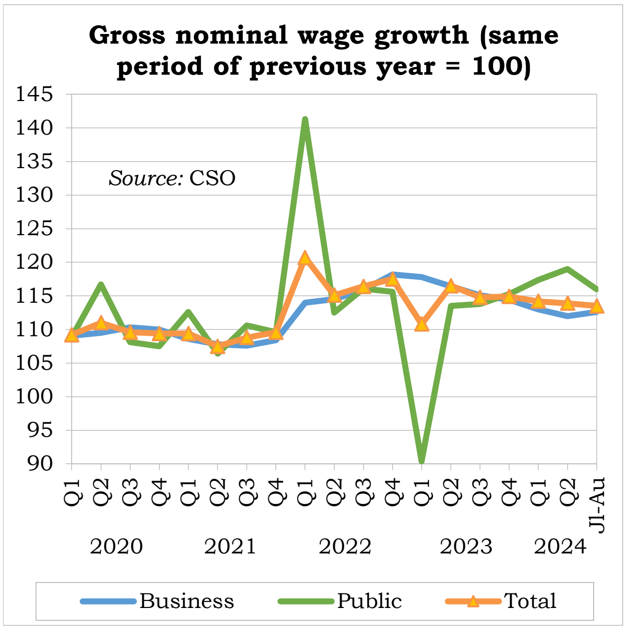
3.3. The expenditure side of GDP

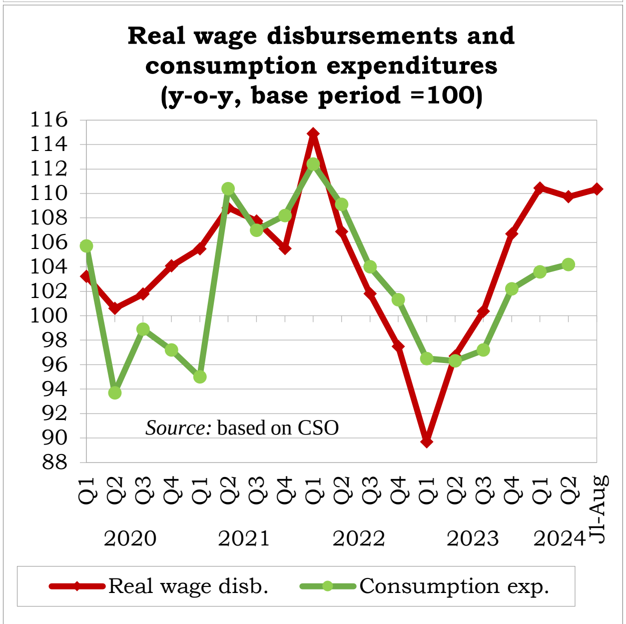
3.3.1. Household incomes, consumption and savings

In the first eight months of 2024 **nominal wages** was up 13.9%, amid an inflation rate of merely 3.7%. As a result, real wages rose by 9.8% in January-August. The growth rate in *median wages* was even faster, by about 2 percentage points. Since the number of employees is still growing – just barely – ***net real wage disbursements*** rose by 10% in January-August. The pace of wage growth is slowing but only gradually, hence the yearly real wage outlook is quite favorable, even if the expected year-end acceleration in inflation is taken into account.

The pace of real wage growth is remarkable even if some of it can be seen as a compensation for the real wage *decrease* in 2023. The nominal wage growth has been only marginally slower so far this year than the annual average in 2023 while the inflation rate moderated spectacularly.

While in 2023 the respective yearly rates of decline in ***household consumption expenditures*** and real wages were similar, in 2024 consumption expenditure growth lags far behind the spectacular growth in real wages, with a rate of 3.6% in the first quarter and 4.2% in the second. This implies that households as a whole remain **cautious**, even though the period of real wage decline ended around mid-2023. Due to the fall in the volume of in-kind transfers from the government, the *actual consumption by households* grew at an even more subdued pace (2.5% in Q1 and 2.9% in Q2).

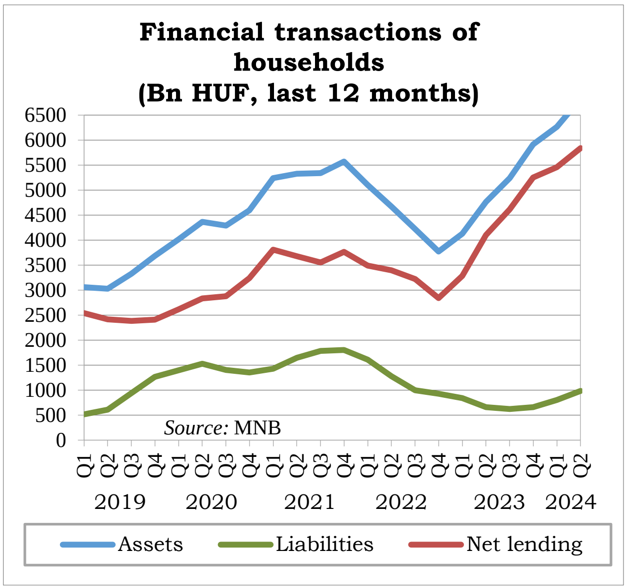


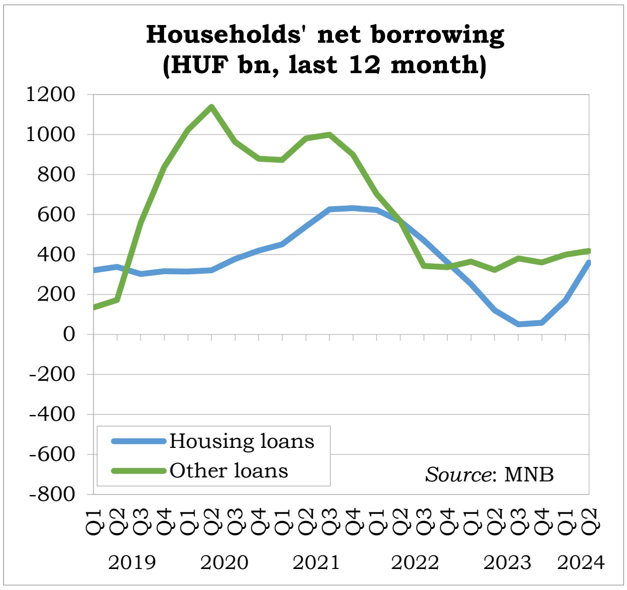


This is all the more remarkable because the sector accounts data by the CSO indicates that not just real wages, but also the ***total disposable income*** of households also grew by more than 10% in the first half of the year.

The households' cautious attitude is also demonstrated by the apparent decrease in the fixed capital formation spending by households on the one hand – according to the sector accounts data – and the *continued steep nominal rise in* households' ***net financing capacity*** in the second quarter. While net borrowing by households is also on the rise this year – mostly due to the expansion in *housing loans* – gross financial savings rise at an even faster rate. The *four-quarter cumulative* ***savings rate*** of households was 7.4% in the second quarter, up from 7.1% in the first quarter and 7% in 2023. (The non-cumulative savings rate was as high as 11.9% in the second quarter.)

We expect the households' cautiousness to ease only gradually during the **second half of 2024**, leading to a slight acceleration in consumption growth at best. While the gap between income and consumption growth is wide open, the gradual moderation in the pace of real wage growth may prompt caution. But even so, the yearly real wage growth rate is likely to surpass 9%. At the same time, overall private consumption may be slightly above 3% in 2024 (with a higher rate of growth in private consumption expenditures alone). In **2025**, consumption growth may slightly accelerate further despite the slowdown in real wage growth, due to the continuing improvement in consumer optimism. At the same time, a strengthening of household investments may weigh on financial savings.





3.3.2. Investments

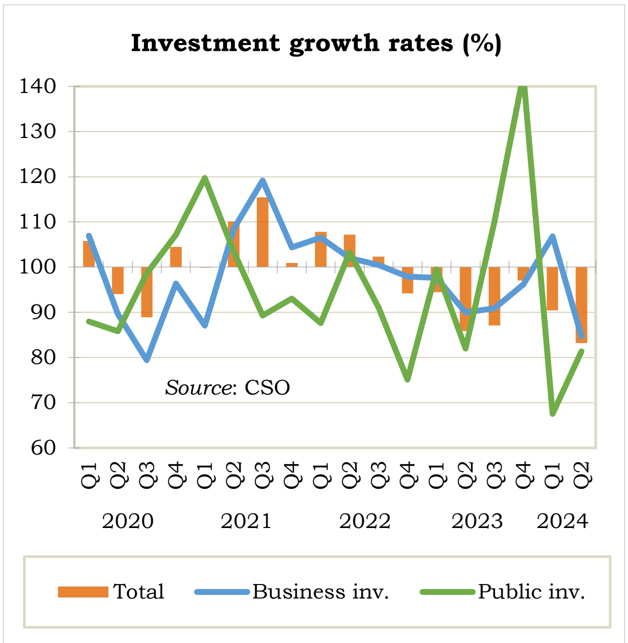
In the second half of 2024, investments dropped by 16.8% on an annual basis, an almost unprecedented plunge in the past 25 years. The decline has been ongoing for nearly two years now. The seasonally adjusted volume of investment steeply decreased compared to the previous quarter, to the lowest level since the second quarter of 2018.

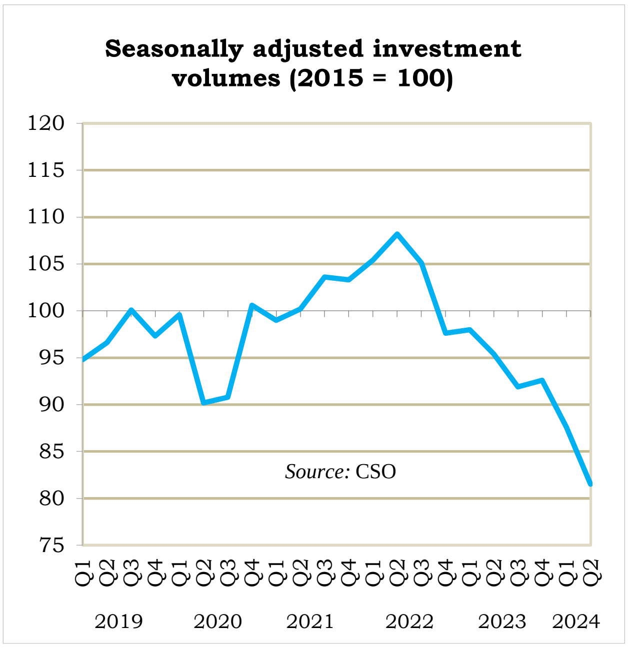
State investments continue to plummet, albeit the rate of fall moderated to 19% in the second quarter from 32% in the first. On the other hand, the short-lived positive growth in the business sector (7% in Q1) turned into a fall of 15% in the second quarter. The data indirectly suggests that the investments of households and the micro and small enterprise sector also continued to contract.

Business sector investments were primarily dragged down by the extreme plunge in *manufacturing* (by 35%). it seems that the unexpectedly weak external demand conditions prompted the firms to drastically cut their investment activity. Investments in the transport&storage sector were also down 35%, a reflection of the reduction of state demand for transport infrastructure investments. Among the other important economic industries, the trade sector posted a steep fall in investments (after a transitory growth in Q1) while investments in the real estate sector expanded minimally (after decreasing for six quarters in a row). It is not entirely clear why public investments contracted so badly since investments reportedly grew in public administration and education.

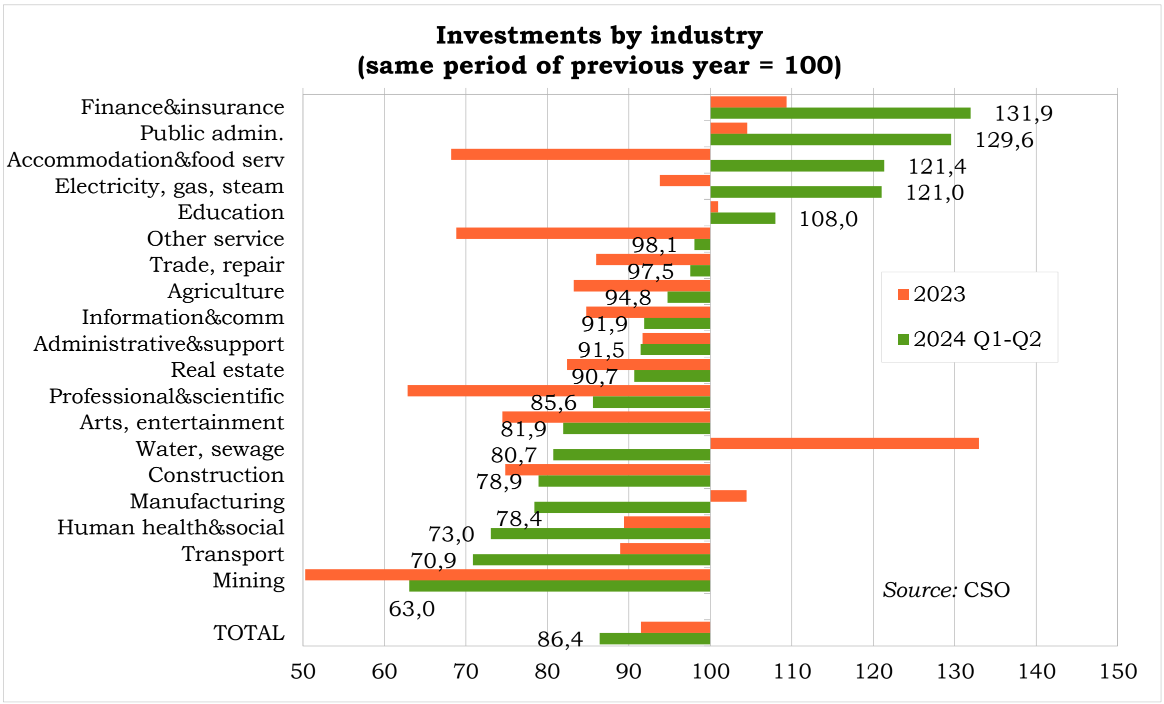
On the whole, investments declined in nearly two-thirds of the economic sections while they virtually stagnated in one (agriculture). In addition to the three sections mentioned above, investments grew in finance and in the tourism accommodation&food service sector – two areas having relatively small weights – and in the energy sector which heavily relies on government-financed projects.

On average, the volume of investments was 13.6% lower in the first half of the year than one year earlier.





While at the start of the year it could be hoped that investments would begin to grow modestly this year, there is no such hope now. There is not even a hint of an improvement in the external demand conditions for now, and even the perspectives of a future upturn are getting increasingly uncertain. The fiscal constraints are still present, while the chances of accessing the NRRP funds are fainter than ever. With the strengthening of the households' income situation, some investment revival can be expected among the domestic-oriented firms. But overall investments are likely to **decrease by about 8% in 2024**. A very modest upturn can be hoped for 2025.



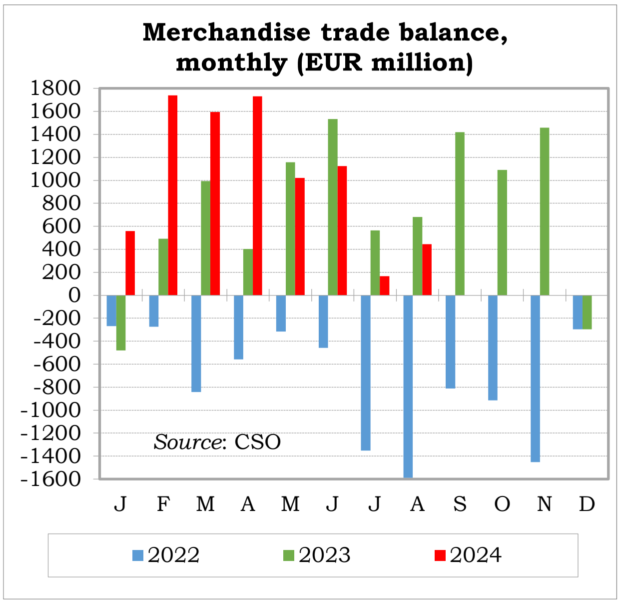
3.3.3. External trade

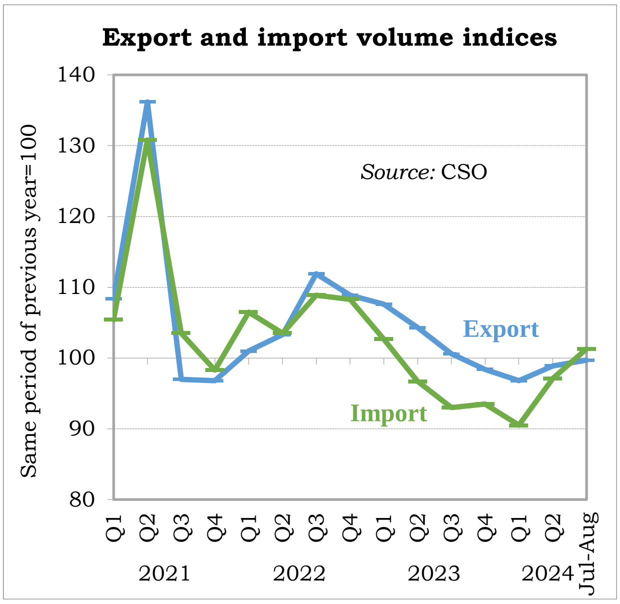
The improvement in external trade position continued in the first third of this year: even though export could hardly grow in January-April, the volume of import decreased substantially. As a result, the *trade surplus* was steadily higher in January-April than one year before. During this period, the continuing terms-of-trade improvement (by 2%) also added to trade surplus growth.

The tables have turned, however, in the second third of the year. The trade surplus started to decrease on an annual basis as the former symbolic export growth turned into decrease and the former sharp import fall moderated considerably. The seasonally adjusted data shows a partial recovery in imports after April while the monthly export volumes have subsided compared to the levels seen in February-April. The import growth rates have strengthened in every main group of commodities but in the case of machinery and transport equipment this strengthening meant only a deceleration of decline. In the case of export, the pace of decline accelerated in every main group of commodities save fuels and electric energy, a less than significant component of Hungarian export.

As a result of this negative turn, the cumulative trade surplus in January-August was only 57% higher than one year earlier, as opposed to the January-April period when the cumulative surplus was four times higher than in the same period of the previous year. The fact that the previous moderate terms-of-trade improvement was replaced by a moderate deterioration (from July) reinforced the negative turn regarding the trade balance.

During the rest of the year, the volume of export will likely continue to decrease at a higher pace than import, even if the stubborn weakness of domestic demand prevents import to start to expand. The annual surplus may be around EUR 10 billion, higher than in 2023, unless an oil price explosion or some other unexpected event upsets the current trends.



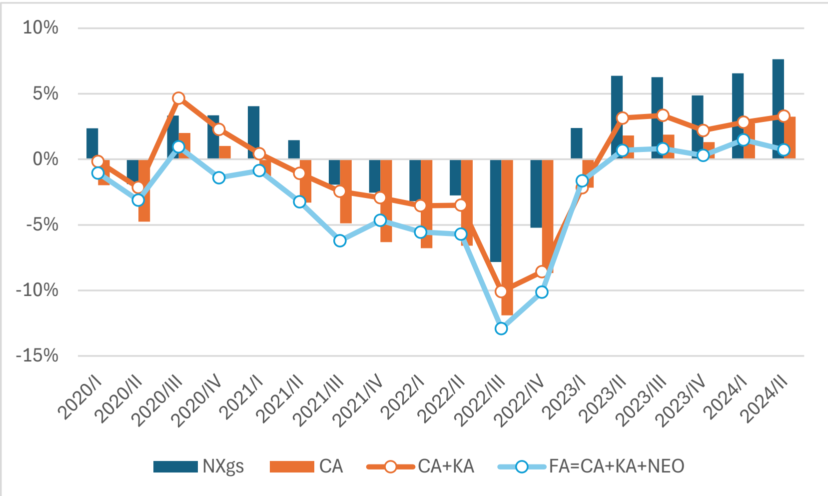


3.4. The balance of payments and the factors behind the changes in net export

Simultaneously with the publication of the second-quarter balance of payments data, the MNB also released a revision of the previously published data. The revisions show that the shift from a current account deficit to a surplus in 2023 was even more spectacular than previously known. From a deficit of 8.5% of GDP in 2022, the current account balance rose to +0.7% of GDP in 2023, an improvement of 9.2 percentage points. This upward shift – outstanding not just domestically but also among EU member states – was primarily due to the change in net exports. Hence, this is the component we will focus on in the following discussion.

The GDP ratio of the seasonally adjusted current account surplus edged slightly upward in the first half of 2024 compared to the end of 2023, reaching 2.7% in the first quarter and 3.3% in the second quarter. The consolidated balance of the current and capital account (CA+KA) – the so-called external financing capacity, calculated from above – was only marginally different from the current account surplus. This reflects the fact that the inflow of EU transfers has been reduced to a trickle (see the graph below, where the orange column displays the current account balance (CA), and the CA+KA is shown by the orange line). The graph also shows trends from the preceding years, starting in early 2020, illustrating that such an unusual convergence between CA and CA+KA occurred only at the end of 2022 and in early 2023. During the rest of the observed period, the capital account surplus tended to cushion the current account deficit, or (in the second half of 2020 and in three quarters of 2023) add to the current account surplus.

Net export, current account balance and the external financing capacity calculated from above and from below between 2020 and 2024 (seasonally adjusted data, % of GDP)

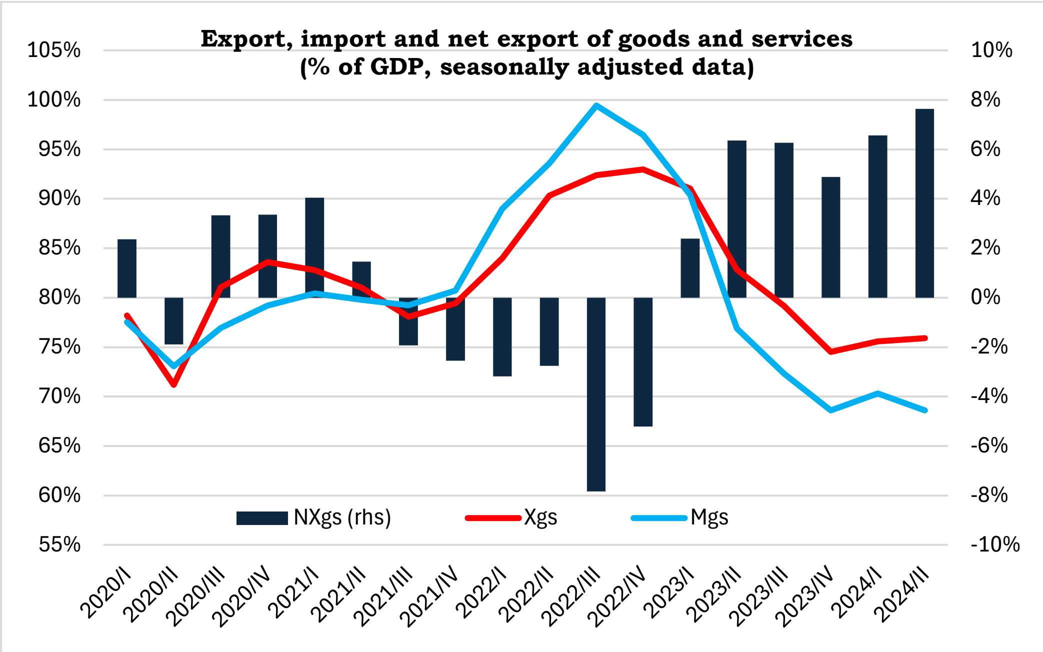


Codes: NXgs: net export of goods and services, CA: current account balance, CA+KA: consolidated current and capital account balance; FA: financial account balance; NEO: net errors and omissions.

Source used for this graph and the other graphs in this chapter: MNB, and own calculation

The graph also displays the so-called external financing capacity calculated from below, i.e. the financial account balance (FA), as a blue line. With rare exceptions, this latter indicator shows a higher deficit or (since the second quarter of 2023) lower surplus than the indicator calculated from above. (One factor behind this divergence may be unregistered capital outflows.) But this difference notwithstanding, both indicators moved in the same direction and roughly followed the changes in net export (the balance of external trade in goods and services) during both the period of deterioration and (from late 2022) the period of improvement.

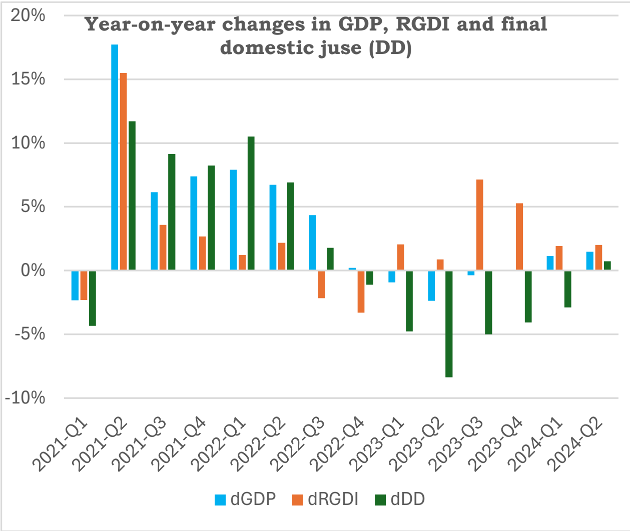
It is therefore worth taking a closer look at the extent to which the changes in export and import contributed to the shifts in net export. The graph below shows that the moderation of the deficit and its eventual turn into a surplus was due to the fact that – amid decreases in both export and import – the decline in export was less pronounced than the fall in import. Specifically, the export-to-GDP ratio decreased by a cumulative 16 percentage points between the third quarter of 2022 and the second quarter of 2024 while the respective fall in import was 31 percentage points. The export-to-GDP ratio seems to stabilize in 2024 while the trend for import remains unclear.

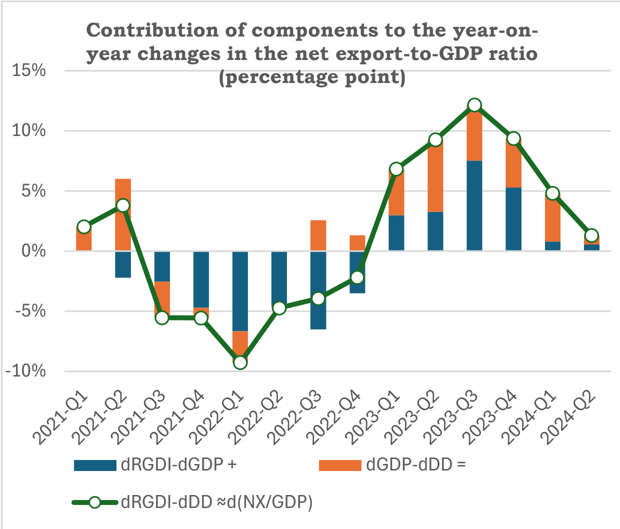


Codes: Xgs, Mgs és NXgs: export, import and net export of goods & services

Until now, we have analyzed the nominal data at current prices, but as we noted in our previous report, in times of substantial terms-of-trade changes it is important to distinguish the impact of changes in relative prices and relative volumes on the overall nominal changes. In our summer report, we directly broke down the changes in the net export-to-GDP ratio into its volume and price components (focusing on the external trade flows. Now, we provide a breakdown focusing on the relative changes in three fundamental macroeconomic aggregates.

The left side of the graph below shows the year-on-year volume changes in GDP, RGDI (i.e. GDP adjusted for terms of trade changes) and final domestic use. These changes are interesting in themselves, but our focus now is on the changes in the relationships between these three indicators and their effect on the external balance, shown on the right side of the graph.





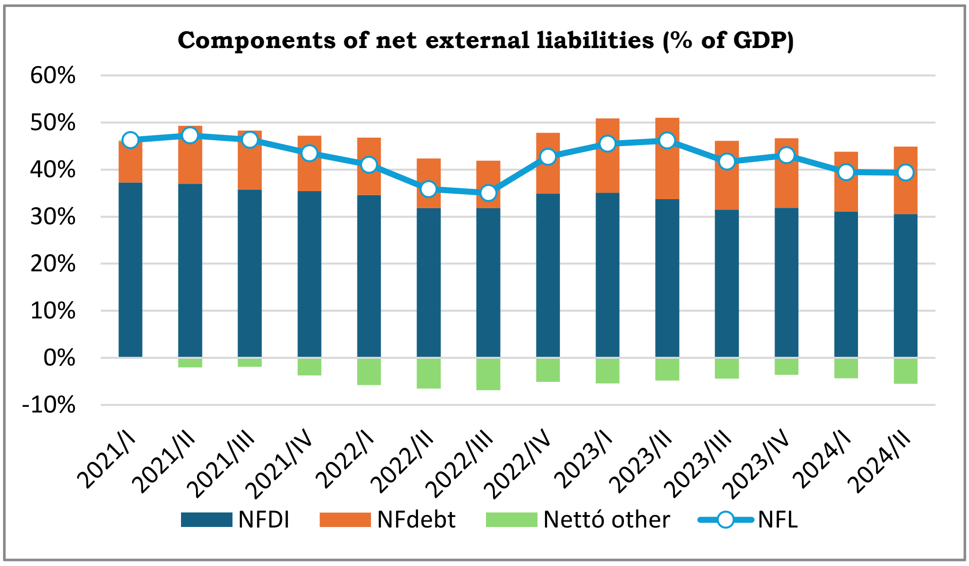
Codes: dGDP, dRGDI és dDD: the year-on-year volume changes in GDP, GDP adjusted for terms-of-trade changes, and final domestic use

The difference between the respective changes in RGDI and GDP reflects the terms-of-trade effect (dark column), while the difference between the changes in GDP and final domestic use (orange column) shows the effect of relative volume changes on net export. The sum of these two effects (the difference between RGDI and final domestic use), in turn, is approximately equal to the change in the net export-to-GDP ratio. The GDP ratio of net export deteriorated until the end of 2022, predominantly due to the worsening terms of trade, while the volume effect was either an amplifying or a (slightly) mitigating factor. The subsequent shift, however, was mostly driven by volume changes, namely the fact that the upturn in final domestic use lagged behind the upturn in GDP. As the left side of the graph shows, this gap between the growth rates of domestic use and GDP was due to the drastic contraction in domestic use.

The effect of the factors supporting the improvement in the trade balance greatly diminished in 2024. The gradual upturn in domestic demand will probably lead to expanding import volumes and a decrease in the trade surplus.

It is also worth mentioning that within the *financial account* of the balance of payments, under the “Direct Investment (Liabilities)” heading, the “Equity” line shows a negative value of EUR -5 billion (about 3.5% of GDP) in the second quarter of 2024. As a result, the total net FDI balance shows a capital outflow of EUR 2.5 billion. The enormous negative item can hardly be anything other than the sump spent on the nationalization of the Budapest airport.

The stock of net external liabilities as a percentage of GDP has decreased somewhat since mid-2023, due to reductions in both net FDI and the debt stocks. In the graph below, the green column displays the “net other” item, which mostly covers the central bank gold reserve. The motivation behind the recent accumulation of gold reserves is unclear.



Codes: NFDI: net foreign direct investment, NFdebt: net foreign debt, NFL: net foreign liabilities

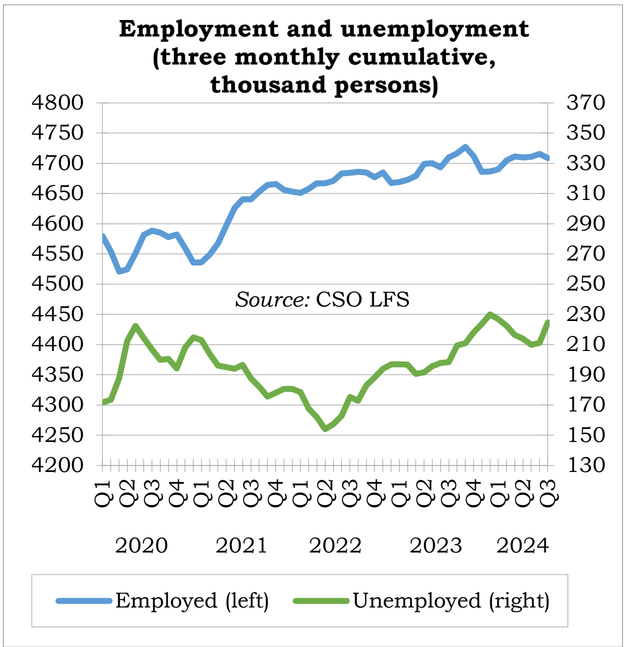
3.5. Employment, unemployment

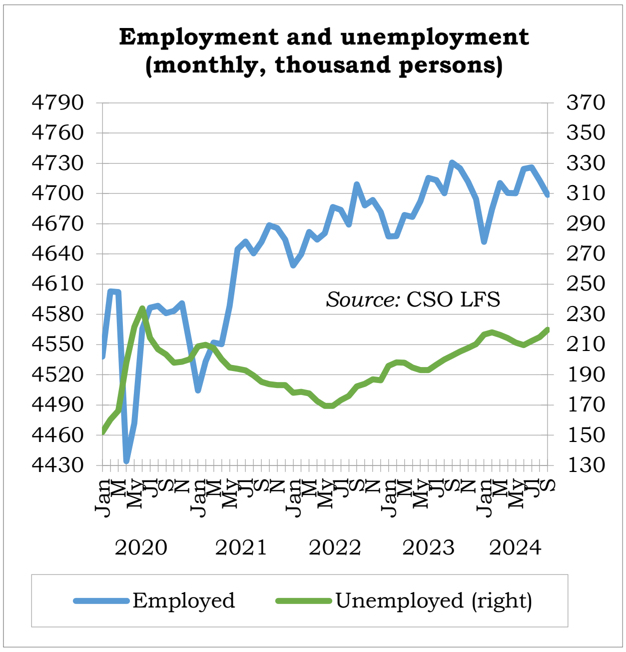
According to the *labor force survey* (LFS) data, the number of employed continued its year-on-year rise in the first and the second quarters – at a decelerating pace – but stopped in the third quarter. The slowing growth in the number of employees could not surpass anymore the steady decrease in the number of self-employed. The number of employed on the *domestic primary* labor market continued to grow (at a symbolic rate of 0.2%) in the third quarter, amid the continuing decrease in the number of public workers and the (slowly) rising number of those working abroad.

The negative turn is more spectacular in the case of *unemployment*: the unemployment rate jumped back to 4.6% in the third quarter, after a temporary easing in the second quarter. The number of unemployed continued to grow at a double-digit rate on an annual basis: even if the inflow of formally inactive into the labor force has slowed down, the halt in the growth in the number of employed resulted in the continued year-on-year growth in the pool of unemployed. In sum, the weak and further weakening growth outlook has its effect on the labor market, although this effect is not dramatic so far.

The number of employed persons decreased markedly in agriculture and in construction, and much less markedly in manufacturing, but this decline was mostly offset by the increasing number of employed in *services*. Just as in the second quarter, the number of those in part-time employment grew amid a decrease in the number of persons working full-time, a less than encouraging sign.

We do not expect a positive trend change in the last quarter of this year: the continuation of near-stagnation in employment will result in a very meagre yearly employment growth rate of about **0.2% in 2024**. The annual unemployment rate may hit **4.5%**, a non-trivial rise compared to the 4.1% registered in 2023. In 2025, the growth in employment may accelerate somewhat, and the unemployment rate may decrease by a couple of tenth of a percentage point.





3.6. Fiscal, monetary and financial developments

3.6.1. Fiscal developments

The 2024 fiscal budget law, adopted in the summer of 2023, set the general government deficit target at 3.1% of GDP, assuming a GDP growth rate of 4%. Both targets were amended in the spring of 2024, after the fiscal deficit hit the annual target as early as the end of April. The government announced that the new target is 4.5% of GDP, amid an annual growth rate of 2-3%. Since then, the growth projection has been revised again, now to 1-2%.

By the end of August, the cash-flow deficit of the central subsystem reached HUF 2,858 billion. According to the Ministry of Finance, the current cash-flow deficit target (4.5% of GDP) corresponds to a nominal deficit of HUF 3,982 billion. However, this nominal target assumes a nominal GDP of HUF 88 trillion, which is not realistic. In fact, nominal GDP may reach at most HUF 80 trillion, implying a deficit of HUF 3,600 billion – 80% of which has already materialized in January-August. This 80% clearly exceeds the prorated 67%.

The *accrual-based* data presents a more favorable picture. According to the ESA report, the accrual-based deficit amounted to 2.3% of GDP in the second quarter, down from 5.4% in Q1. In the first half of the year, the nominal ESA deficit was HUF 1,490 billion, well behind the respective cash-flow figure (HUF 2,900 billion), or 3.7% of first-half GDP.

The October EDP report by the Ministry of Finance projects a cash-flow deficit of HUF 4,539 billion and an accrual-based deficit of HUF 3,515 billion. The latter is consistent with the target deficit-to-GDP ratio of 4.5%. The difference between the cash-flow and ESA deficits – the so-called ESA bridge – is roughly HUF 1,000 billion, reflecting the subtraction of expenditures linked to various items, such as European Union programs (including the NRRT), from the cash-flow balance. However, if the Hungarian government and the European Commission fail to reach an agreement by the end of this year – which unfortunately seems likely – the NRRT expenditures will need to be re-added to the ESA deficit.

A larger issue is that the EDP report of the Ministry of Finance in October still projects nominal GDP of HUF 81,700 billion for 2024, while the actual figure is more likely to be below HUF 80,000 billion. This discrepancy could add several tenths of a percentage point to the GDP ratios of various fiscal indicators, potentially causing significant changes in the difference between cash-flow and accrual-based fiscal outcomes in the second half of the year.

Returning to cash-flow data, the biggest shortfall was observed in VAT revenues in January-August, mostly due to the implausibly high target. The budget envisaged a 22% jump in nominal VAT revenues for 2024 compared to the previous year. This projection, adopted in mid-2023, was based on the optimistic assumption that VAT revenues in 2023 would be higher by HUF 1,000 billion (!) than the actual outcome – the planned revenue growth for this year would have been added to this inflated base. VAT revenues were up 12% in the first 8 months of this year, far below the target. The annual revenue is likely to fall short of the plan by at least HUF 1,000 billion, even if households' willingness and ability to spend increase in the last quarter. Excise tax revenues also trailed expectations, despite a sharp hike in the excise duty on fuels. Revenues from other consumption-related taxes (telecommunications tax, insurance tax, contribution to tourism development tax) surpassed expectations in January-August, though these revenue items are relatively small.

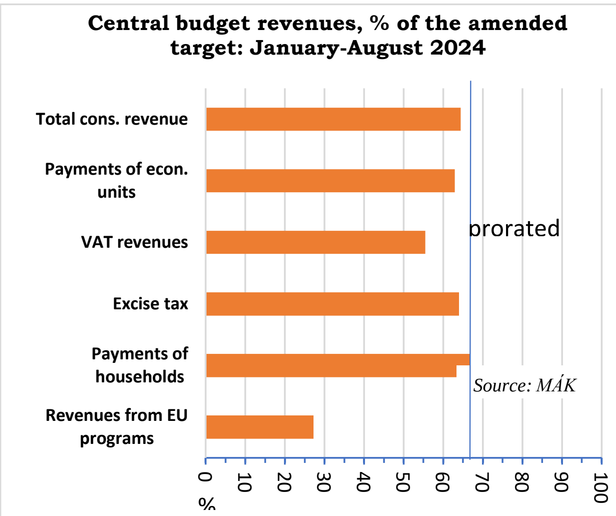
Interest expenditures also far exceeded the planned amount in the first 8 months. The spring EDP report had envisaged an interest cost of HUF 3,951 billion, or 4.87% of the then expected nominal GDP. Since then, the nominal GDP outlook has become more modest as both the GDP growth rate and inflation (along with the GDP deflator) are lower than previously expected. As a result, the annual interest payments may approach 5% of GDP in 2024.

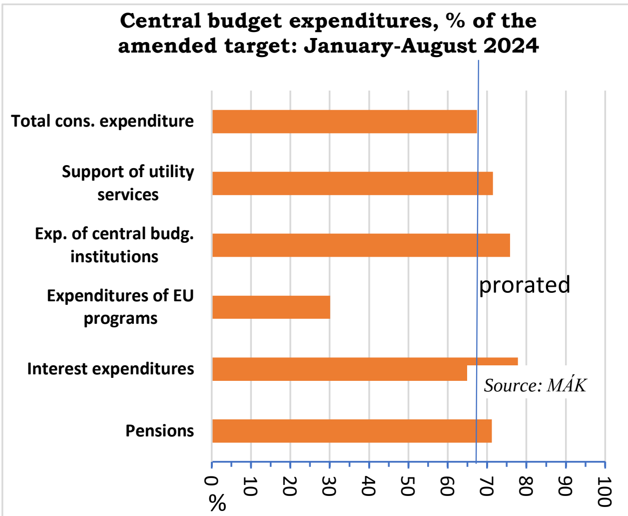
Both the EU program revenues and expenditures were lower than planned: only 27.2% of the annual revenue target and 30% of the expenditure target were realized in January-August. As a result, the partial exclusion of Hungary from the EU programs did not worsen the fiscal balance – but it did worsen the growth outlook.

The fiscal outcome was somewhat more favorable in the first 8 months of 2024 than in the same period last year. But much of the yearly deficit was generated in the last two months of the previous years. Therefore, much depends on whether the government can break the habit of year-end spending binges. There is a chance the government will show restraint this time, as several significant consolidation measures have already been introduced, suggesting a determination to reduce the deficit.

The government has taken various steps to increase revenues, raising certain taxes and withdrawing its former promise regarding the elimination of special taxes. These decisions will raise the revenues by about HUF 100 billion in 2024. But the level of the deficit primarily depends on reducing expenditures, and there is still considerable uncertainty on that front. Although several announcements have been made about expenditure cuts of various magnitudes, they lack specifics regarding which expenditure items will be cut.

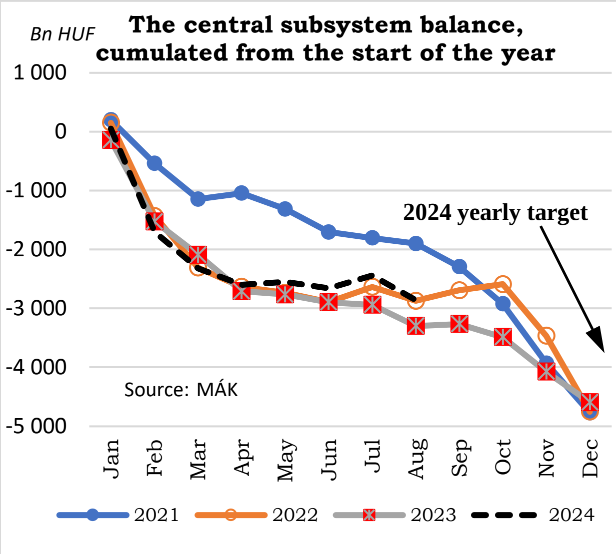
A government decree, issued in late September, canceled/postponed 130 state investment projects, but the budgetary impact cannot be quantified, especially in terms of its effect on the 2024 fiscal outcome. Since some of the affected projects – those that, as the decree puts it, “no longer require further subsidies” – would not generate fiscal expenditures in 2024, much of the savings will probably materialize only in 2025.





The monthly trajectory of the 2024 deficit is quite similar to that of the previous year but slightly more favorable. The cumulative deficit in January-August 2023 was HUF 3,000 billion, as opposed to the “mere” HUF 2,800 billion in the same period of this year. Therefore, if the government refrains from massive year-end spending – unlike in the previous years – then there is a chance the fiscal deficit could moderate substantially from 6.3% in 2023.

In light of the relatively high cash-flow deficit, the aforementioned problems related to the ESA bridge, and the lower-than-expected nominal GDP (the denominator of the deficit-to-GDP ratio), we expect the **fiscal deficit to reach 5% of GDP in 2024**.



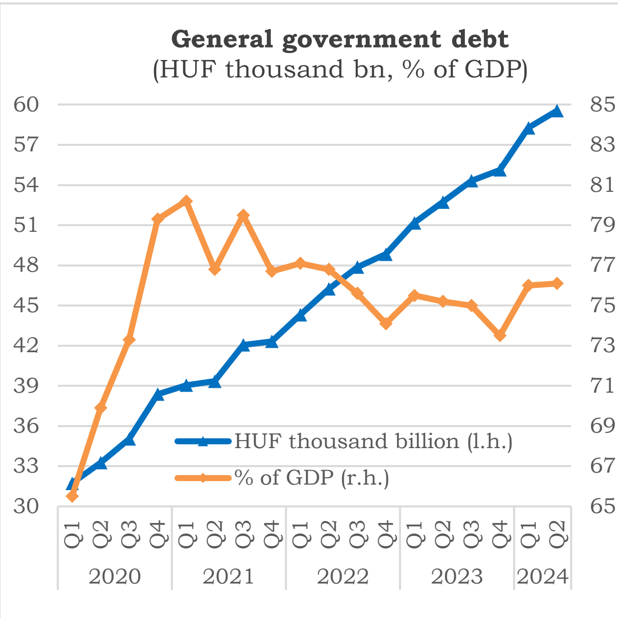
Government debt

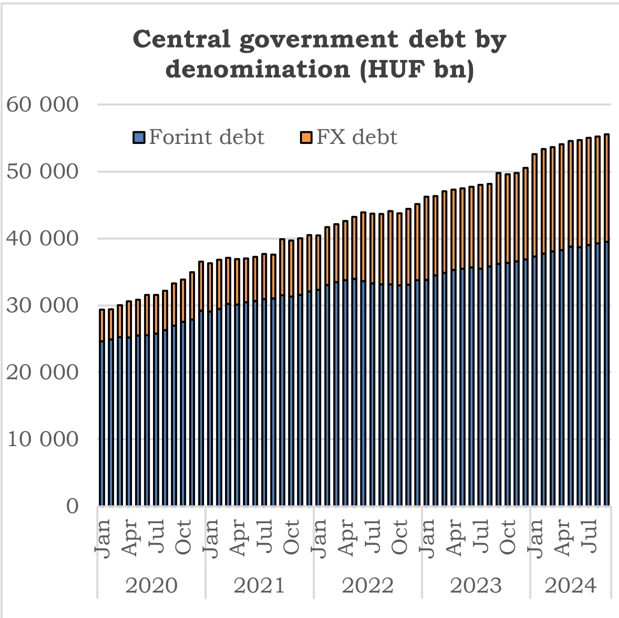
In the first half of 2024, the gross fiscal debt (including the Eximbank) rose to HUF 59,552 thousand billion – by 8%, according to the MNB. The bulk of this growth took place in the first quarter. The debt-to-GDP ratio reached 75.8%, up from 73.4% in last December.

According to the data by the debt management agency (ÁKK), the Hungarian central budget debt (without Eximbank) stood at HUF 55,685 at the end of September, 9.5% higher than at the end of 2023. During the first nine months, the share of FX debt within total debt fluctuated between 28.7 and 29.2%, only slightly below the 30% ceiling. The ÁKK raised this ceiling from 25% to 30% in 2022, and since then, the actual debt hovered in the vicinity of this threshold. One of the factors that make the share of forex debt important is the exposure to the changes in exchange rates. The substantial weakening of the forint against the euro since late September (we do not expect the bilateral exchange rate to return again below 400 EUR/HUF) is quite relevant in this respect.

The future prospects of the debt-to-GDP ratio are clouded by several factors. The weakening of the forint increases the amount of debt in forint terms, while the lower-than-previously-expected nominal level of GDP raises the debt ratio. As a result, a return to 73.5%, the ratio at the end of 2023, is increasingly unlikely, even if the government manages to keep the yearly ESA deficit at 4.5% of GDP. This is because the debt is not shaped by the ESA deficit but the actual cash-flow deficit, and the financing needs generated by that deficit. Hence, we predict a debt-to-GDP ratio of about **74% by the end of 2024**.

It is possible, of course, that the government succeeds to keep the year-end debt ratio below 73.5% by resorting to various financial market instruments.





3.6.2. Inflation

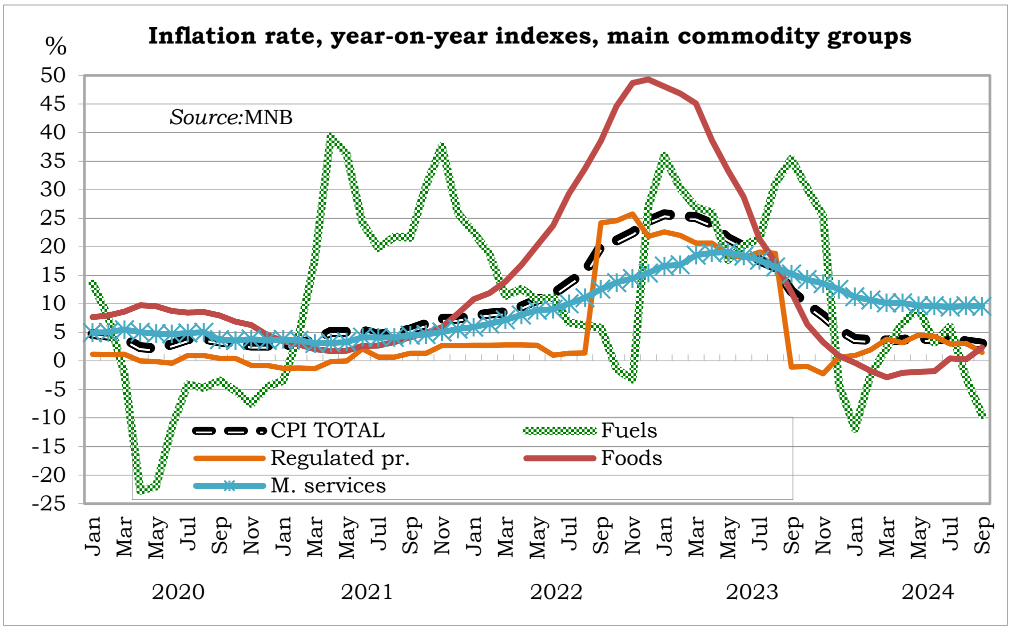
In the first 9 months of 2024 the average inflation rate was 3.7%, with the monthly year-on-year rates fluctuating between 3 and 4%. September saw the lowest rate – 3% – well below the market expectations.

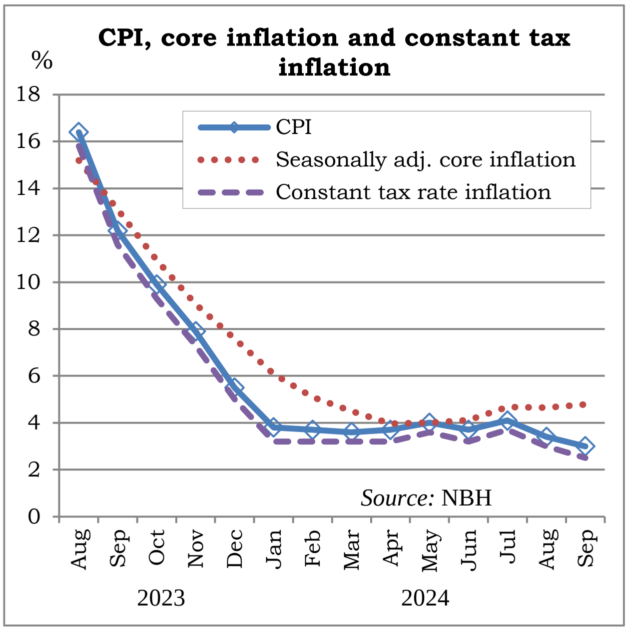
The prices of consumption durables and fuel and power decreased in the first 9 months – durable prices by 1.2% and fuel&energy prices by 5.2%. The latter has larger effect on the overall price index because its weigh in the consumer basket is some 24%, as opposed to the merely 8% in the case of consumer durables. Due to the peculiarities in the calculation of the CPI, household energy prices decreased because the quantity of energy consumed by households decreased, which resulted in a drop in the share of electricity and gas provided at a higher price, compared to the quantities provided at the basic price.

Food prices also rose at a moderate pace, by 2%, in January-September, although it is also true that this moderate rise came on top of the gargantuan food price inflation in 2023, and despite the moderation – in some cases, even price decrease – the food price level is still higher than in the neighboring countries. Besides, the prices of certain food continued to rise at a relatively high pace (pork: 7.8%, chocolate: 11%, meals at restaurants & canteens: 8.7%), while prices in other cases prices started to accelerate during the summer (edible oil and especially flour)

The prices of alcoholic & tobacco products and clothing was up 4.6% in the first 9 months while motor fuel prices rose by 1.9%, with significant fluctuation from month to month.

The price index of services is still high (9.5% in January-September) but the month-on-month rate turned to negative in August (-0.8%). The monthly data suggests that the sharp price hikes at the start of the year by the monopolistic/oligopolistic firms (internet providers, telecommunication and utility firms, motorway operators) mostly lost their bite during the second and third quarters. More lasting is the effect of the steep wage raises because the consumer goods and services sector is in large part a labor-intensive sector.

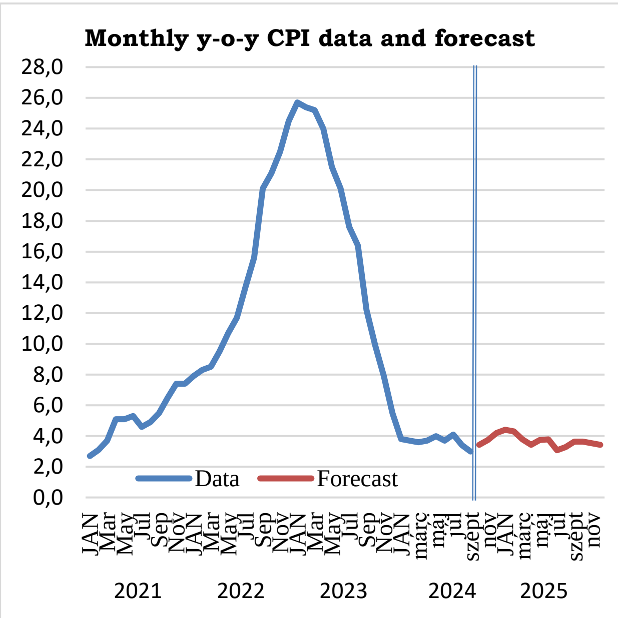


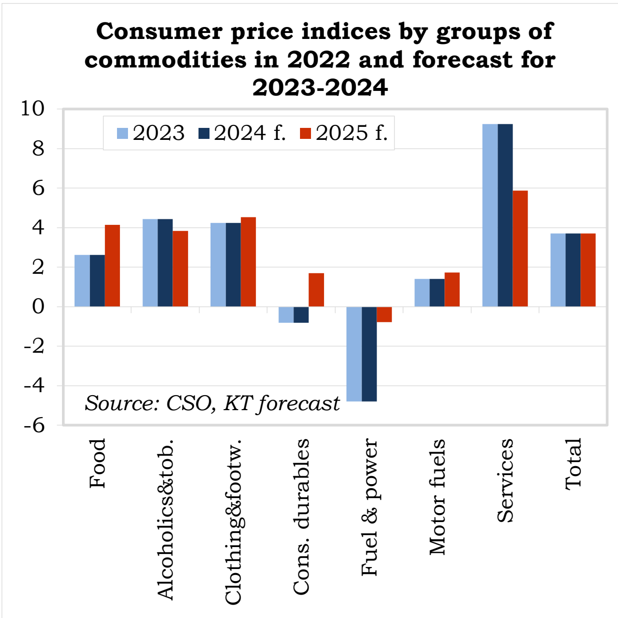


Since August 2023 **core inflation** has almost continuously exceeded headline inflation by 1-2 percentage points. This difference is a warning sign that the inner inflationary pressure is still higher than what is shown in the overall price index which is influenced by short-term factors like the impact of weather on food prices or energy price gyrations. On the other hand, constant tax rate inflation is lower by 0.4-0.5% than the headline rate, which indicates the upward effect of tax hikes on the price index (especially on motor fuel prices). The effect would be even greater if the impact of raising the extra-profit tax payable by the multinational retail chains was included – the affected firms obviously pass through the additional tax burden from this tax hike to their prices. Without this tax, the price advantage of the foreign chains over the domestic chains would be even larger, and the overall price level would be lower as well.

The Kopint-Tárki expects a yearly inflation rate of **3.7%** in **2024**. The price index may be 4.1-4.3% in December, with some further acceleration in early 2025 (due to the low base effect), but the monthly rates will likely moderate again later in the year. We expect the annual average inflation rate to remain the same in the next year as in 2024.

The biggest risk to both yearly predictions, and the 2025 forecast particularly, is the strained fiscal situation: it is uncertain whether, and to what degree, the government will resort to further inflationary tax hikes to buttress the fiscal revenues.





3.6.3. Central bank interest rates

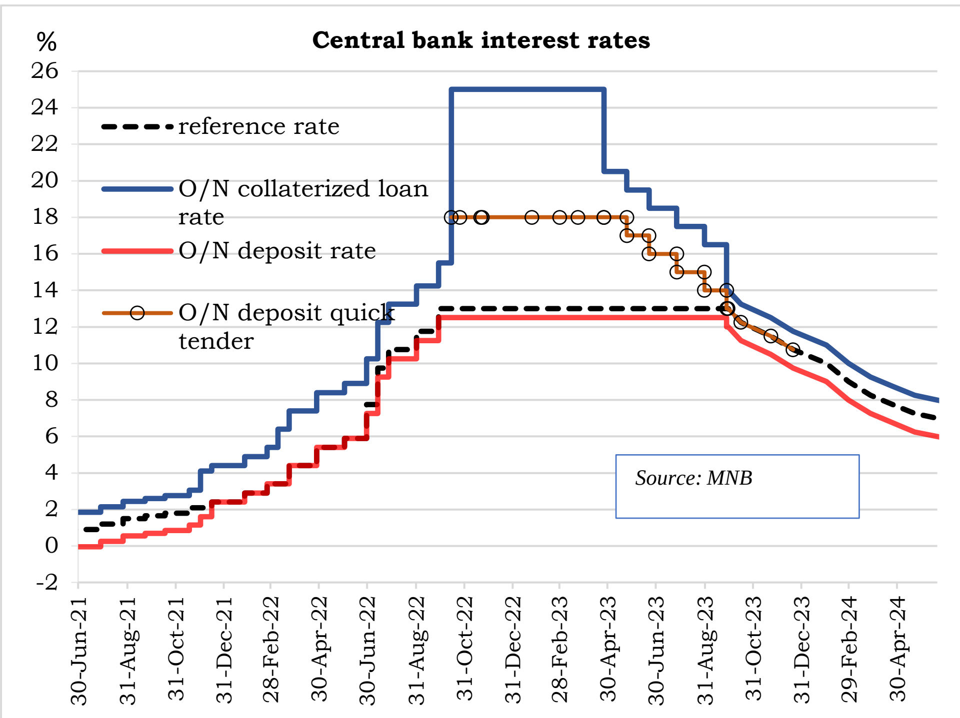
When the effective policy rate reached the level of the official reference rate (13%), the cautious reduction of the reference rate began, at first with monthly cuts of 79-100 basis points and later by 50 basis points. the reference rate dipped to 7% by the end of June 2024. In the second half of this year the rate cuts became smaller and less frequent. After two additional cuts by 25 points, the reference rate reached 6.5% by the end of September.

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, with the lower and upper bounds currently standing at 5.5% and 7.5%, respectively.

The September rate cut did not prompt a weakening of the exchange rate. (The weakening came later, due to different causes.)

The central bank posits that the interest rate policy will be "data-driven", that is, any further cuts depend on the evolution of inflation and expectations. The markets expect one more 25-point cut before the end of the year, which implies an expectation of reference rate level at 6.25% at the end of December. At the same time, the inflationary expectations have eased considerably in recent months: while earlier the analysts almost unanimously predicted a yearly inflation rate of 4% in 2024, now the consensus is lower by several tenths of percentage points, and the expectations regarding the December price index have been also revised to 4.5-4.7% from the earlier 5%.

But in late October, the steep weakening of the forint (from late September) prompted the MNB to indicate that the reference rate was likely to remain unchanged in the next half year. Hence the Kopint-Tárki expects the reference rate to stand at **6.5%** at the end of 2024.



3.6.4. Exchange rate

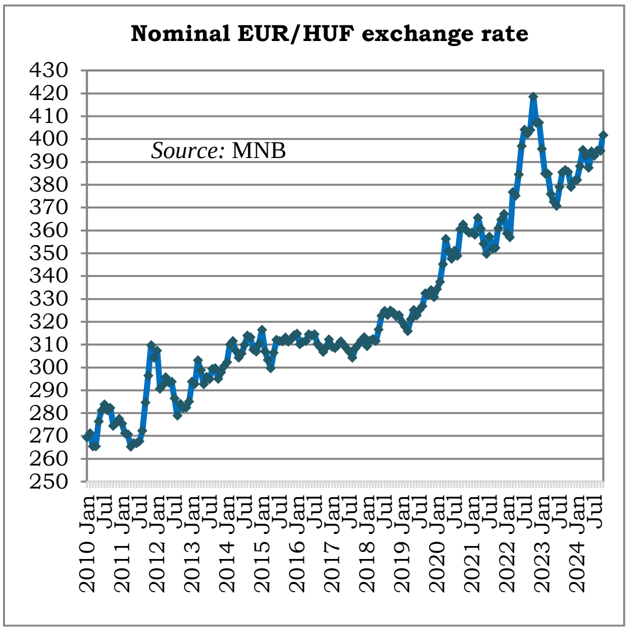
After remaining relatively stable against the euro – mostly within the band of 370-390 EUR/HUF – the forint stood at 382,78 EUR/HUF at the end of 2023. In the first 9 months of 2024, however, the fluctuation band rose to 380-395, and at the end of September the exchange rate crossed the 400 EUR/HUF threshold. After a short lull, another wave weakening began in the last week of October, driving up the exchange rate to 409 EUR/HUF by November 5, primarily due to the disappointing Q3 GDP data.

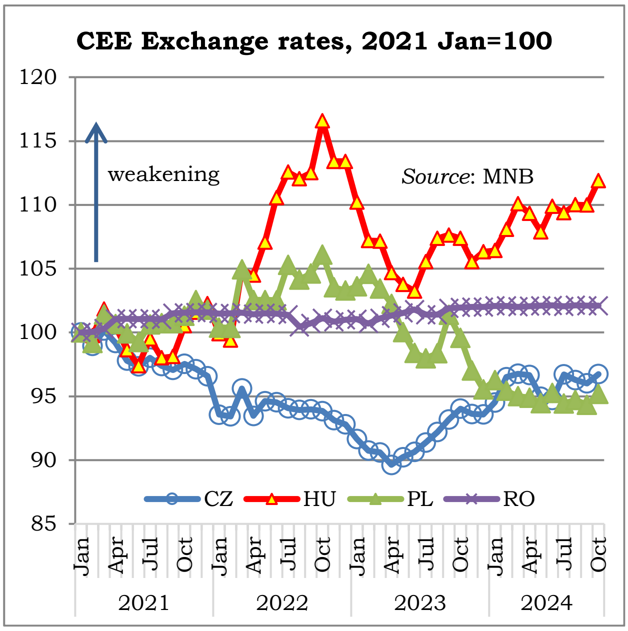
Among the regional currencies the Polish zloty stagnated, or rather minimally strengthened against the euro since the beginning of 2024. After the subsequent steep strengthening and weakening spells in 2023, the Czech koruna roughly stagnated, with wide short-term fluctuations. The stability of the Romanian leu is ensured by the continuous central bank intervention. Since mid-2023, the weakening of the forint was not much sharper than that of the Czech koruna, yet the EUR/CZK still has not rose to its January 2021 level while the EUR/HUF exchange rate exceeded that level by more than 10% in October.

The forint weakened by about 5% from last December to October, reaching the 400 EUR/HUF threshold in October. As the left side of the chart below shows, the weakening trend of the forint has mostly uninterrupted, apart from short-term fluctuations like the temporary weakening of the forint to 420 EUR/HUF in the fall of 2022. The weakening was quite slow until 2018 but markedly accelerated afterward.

The effective nominal exchange rate of the forint (NEER) has weakened by 46% compared to 2010 but the weakening of the real effective exchange rate (REER) – which takes into account the difference from the weighed average inflation in the partner countries – weakened only by 10%, due to the much higher Hungarian CPI.

Compared to 2020, the NEER weakened by 14% while the REER strengthened. The PPI-based real exchange rate, on the other hand, has strengthened compared to both 2010 and 2020, that is, the Hungarian producer price indices exceeded the weighted average of the partner countries to a greater extent than the nominal depreciation of the forint. This suggests a deterioration of price competitiveness.

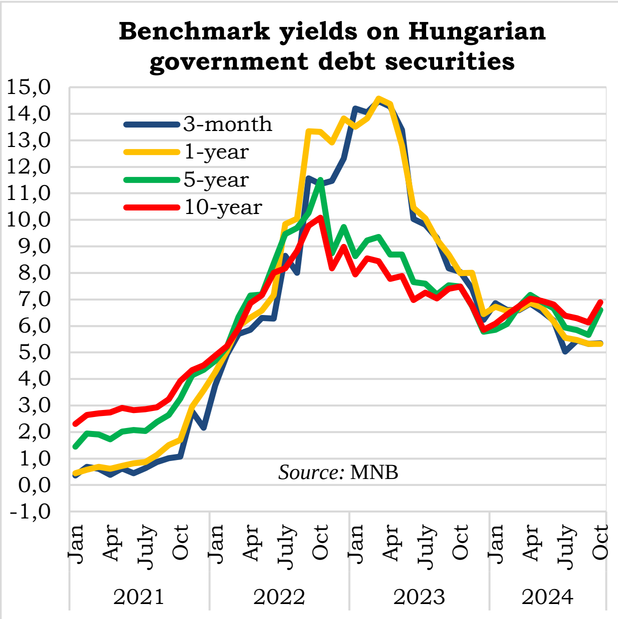


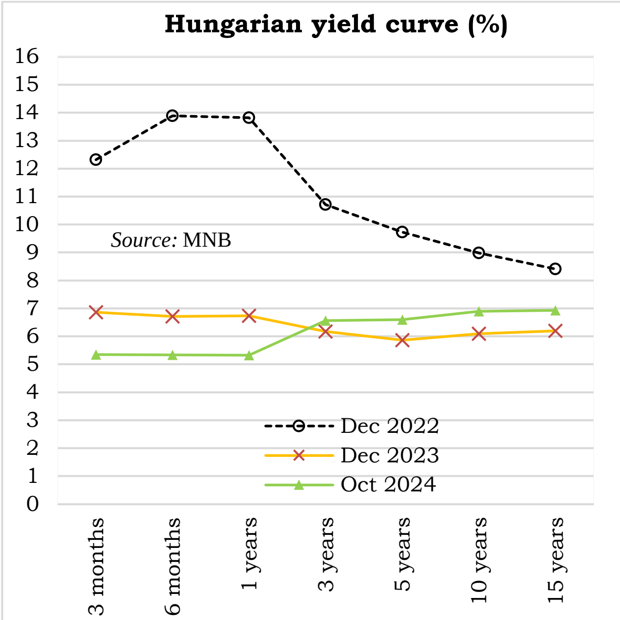


3.6.5. Government yields

The government yields moderated somewhat in the first 10 months of 2024, especially short-term yields, but long yields were also lower at the end of October than on year earlier. Some uptick took place in October, however.

Regarding the past three years, the long yields surpassed short yields as the latter stood at around 1% while the 5-10-year yields were at 2-3%. The subsequent two years saw a reversal in the yield curve since short yields soared to great heights – even past 14% for a couple of months. In the meanwhile, the 10-year yields also reached 10%. By the end of 2023 the yields have decreased at every maturity, with a great overlap between the

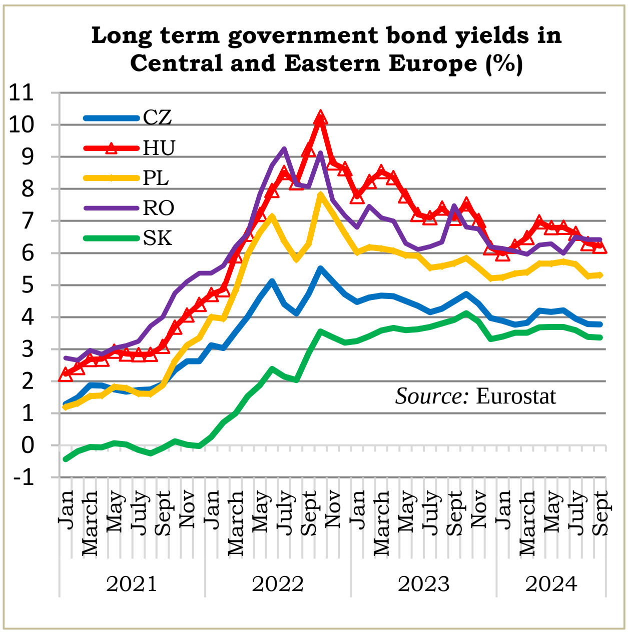




various maturities, to roughly around 6%.

The yield curve already became almost flat at the end of 2023 and largely remained so in October 2024, with the caveat that by then the curve became slightly upward sloping, as opposed to the almost entirely flat shape at the end of 2023.

The Hungarian and Romanian 10-year yields are still the highest among the countries of the region. Between mid-2022 and mid-2023, the Hungarian long yield consistently exceeded the Romanian yield but afterward they became nearly identical, both overing at 6-6.5%. The Polish yield is somewhat lower (5.5-6%) while the Czech and Slovakian yields are close to 4%. On the whole, however, the differences between the countries of the regions have slightly decreased by now compared to the middle of 2022.



3.6.6. Business and household lending rates

The ongoing reduction in the central bank reference rate and the decrease in the benchmark rates had some limited impact on the **interest rates of forint-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, hovered around 11-12% in 2023. A voluntary interest rate ceiling was introduced by the banks on October 9, 2023 for corporate working capital loans under which overdraft loan rates should have dropped below 10% from January 1, 2024. This drop has not materialized, however – the overdraft rate stood at 11% even in September.

The interest rate of the *other business loans* was more volatile. The rate of loans with up to 1 year fixation was above 18% in early 2023 but dropped to 8.2% in August 2024, only to jump back to 8.5% in September. Within that category, the interest rate of the loans under EUR 1 million was about 10.5-10.6% in much of 2024 but dropped below 10% in September. The demand for every type of business loans basically stagnated in the first 7 months of 2024, with a slight uptick in the case of overdrafts in August-September.

The APR of *consumption loans* to **households** has been on a decrease from early 2023, with minor interruptions, and stabilized around 15% in the first 9 months of 2024. The magnitude of new consumption loans has been on the rise and surpassed HUF 100 billion in April.

The decrease in the APR of household *overdrafts* was more pronounced, from almost 30% in 2023 to below 25% in March 2024 and staying within the 24-24.5% band since April. But this level is still higher than the roughly 20% observed before 2023, so there is still ample room for further decrease. The households' improved capacity to repay their loans is reflected in the slightly rising trend of new overdrafts. That was accompanied by a much more impressive rise in overnight deposits, however: the amount households put in such deposits was higher by HUF 1,200 billion in September than one year earlier, even though the average deposit rate has been below 1% since 2014, and it stood at 0.21% in September.

Housing lending

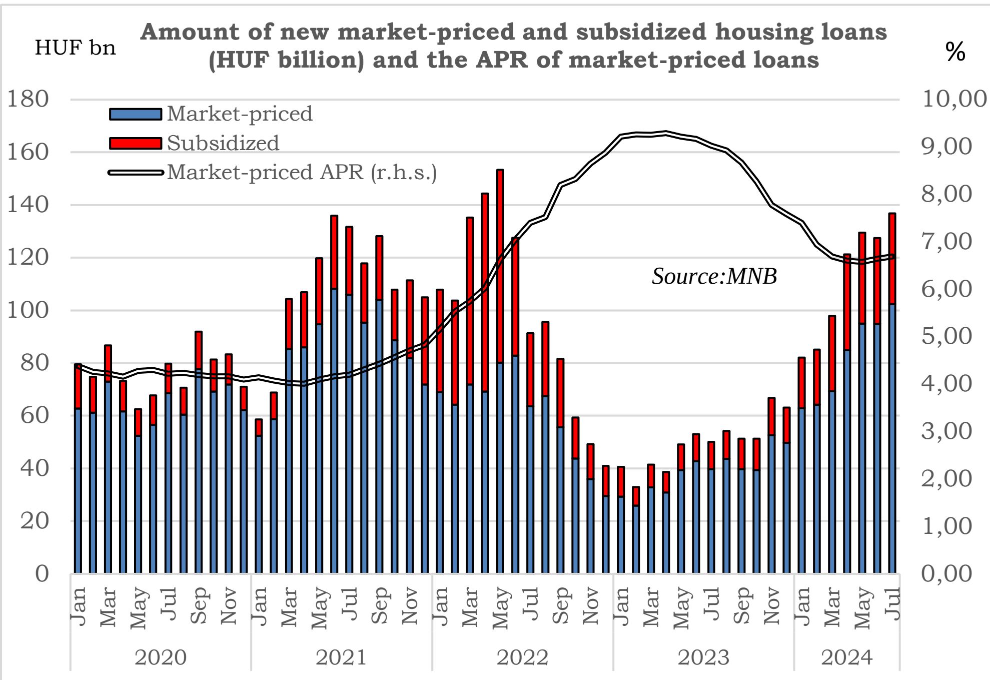
Housing lending rates have moderated considerably during the first 9 months of 2024. The APR for **market-priced** (non-subsidized) housing loans dropped to 7.4% in January 2024, down from 9.2% in January 2023, and has remained within the 6.6-6.8% range since March. In this context, the voluntary interest rate ceiling (APR no higher than 8.5% from October 9, and no more than 7.3% from January 1) has been effectively implemented.

At the same time, the APR for subsidized housing loans (where the state covers the bulk of the lending costs) also decreased, from 15% in January 2023 to 8.8% in September 2024. Since April, however, a slight upward trend can be observed.

In September 2024, the Minister for National Economy requested the Hungarian Banking Association to prepare a report within two months on the necessary conditions to reduce home loan APRs to below 5%. Such a reduction is unlikely before the end of 2024. Priority clients already have access to loans with APRs ranging from 5.5% to 6%, but the average APR stood at 6.78% in September. Further rounds of policy rate cuts in the coming year could increase the likelihood of additional reductions in housing lending rates.

The government hopes that lower housing lending rates will stimulate housing construction and improve overall housing conditions. The previous rise in interest rates to near-10% levels had significantly reduced households' demand for housing loans. The nominal value of new housing borrowing was less than half of the borrowing seen in 2022. More specifically, the value of new housing loans for building and renovation purposes was barely more than 20% of its 2022 level. The amount of new market-priced home loans fell by almost 40% in 2023 compared to 2022.

Housing borrowing gained momentum in the first 9 months of 2024. But 77% of new loans were used to finance the purchase of existing dwellings, 10.8% for the construction of new homes, and 10.8% for the renovation and upgrade of existing homes. Thus, lower housing interest rates have so far only helped boost construction activity to a limited degree.



Economic Indicators 2016-2023, forecast 2024-2025 (percentage change)

	2016	2017	2018	2019	2020	2021	2022	2023	2024*	2025*
GDP AGGREGATES, ANNUAL REAL GROWTH										
GDP total	2.4	4.1	5.6	5.1	-4.3	7.1	4.3	-0.9	0.6	2.6
Domestic Demand	2.0	5.6	7.3	7.3	-2.5	6.4	4.3	-5.6	0.0	2.7
Private Consumption	4.2	4.9	4.1	4.7	-1.5	4.1	6.4	-0.7	2.8	3.2
Public Consumption	0.5	3.8	4.3	9.6	4.2	2.8	0.7	3.9	-1.8	0.5
Gross Capital Formation	-2.7	8.2	17.1	12.2	-7.0	12.7	1.7	-17.1	-5.9	2.5
of which: Fixed Capital Formation	-10.4	19.7	16.4	12.7	-7.3	5.7	0.9	-7.8	-8.4	2.1
Export	3.8	6.5	5.0	5.5	-6.1	8.3	10.7	1.5	-2.2	2.6
Import	3.4	8.4	7.0	8.2	-3.9	7.4	10.7	-3.8	-3.2	2.8
PRODUCTION INDICES										
Agricultural Production (gross)	9.4	-4.1	2.6	-0.1	-2.4	-1.1	-16.5	25.2	-13.0	0.0
Industrial Production	0.9	4.6	3.5	5.6	-6.0	9.5	6.1	-5.5	-3.0	3.7
Retail Trade Volume	4.8	5.6	6.7	6.3	-0.1	3.7	5.0	-7.8	3.2	3.4
EMPLOYMENT, EARNINGS										
Number of Employed	3.4	1.5	1.3	0.8	-0.9	0.7	1.3	0.6	0.2	0.3
Unemployment Rate	5.0	4.0	3.6	3.3	4.1	4.1	3.6	4.1	4.5	4.3
Gross Nominal Wages [a]	6.1	12.9	11.3	11.3	9.8	8.9	17.4	14.2	13.5	7.3
Net Real Wages [a]	7.4	10.3	8.3	7.6	6.3	3.6	2.5	-2.9	9.5	3.5
PRICES, EXCHANGE RATES										
Consumer Price Index	0.4	2.4	2.8	3.4	3.3	5.1	14.5	17.6	3.7	3.7
EUR/HUF Exchange Rate (annual average)	311	309	319	325	351	359	391	382	394	410
EUR/USD Exchange Rate (annual average)	1.11	1.13	1.18	1.12	1.14	1.18	1.05	1.08	1.09	1.08
Short-term Interest Rates (3M), eop	0.06	-0.01	0.00	-0.01	0.28	2.16	12.32	6.2	6.0	5.5
Long-term Interest Rates (10Y), eop	3.16	2.02	3.01	2.01	2.08	4.51	8.98	7.0	6.5	5.5
BALANCE OF PAYMENTS										
Current and Capital Accounts, % of GDP	4.3	2.6	2.4	1.2	1.1	-1.7	-6.7	1.6	3.0	2.5
GOVERNMENT BUDGET										
General Government Balance, ESA-95, % of GDP	-1.8	-2.5	-2.0	-2.0	-7.5	-7.1	-6.2	-6.7	-5.0	-4.5
Gross Government Debt, % of GDP [b]	74.6	72.0	68.8	65.0	78.7	76.2	73.8	73.4	74.0	72.5

a As of 2019, the data encompasses all employers; as for the preceding years, only the enterprises employing at least 5 persons, budgetary institutions and the non-profit organizations that are significant in terms of employment are included.

b Including the balance sheet of Eximbank

* Kopint-Tárki forecast

Source: CSO, MNB

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