## 2.24. HUNGARY

Hungary's economy was on track for a gradual slowdown before COVID-19. Lockdown measures to contain the pandemic began in mid-March, and thus had a smaller impact on economic data in the first quarter, when GDP contracted by 0.4% q-o-q. Confirmed case numbers remained limited and the physical distancing measures have been gradually lifted since the beginning of May. High-frequency indicators suggest that economic activity reached its trough in April. However, the pace of recovery is expected to be uneven across sectors over the remainder of the year. Retail sales rebounded in May as pent-up demand returned, but the deteriorating labour market situation should limit household purchasing power. Tourism and related sectors came to a standstill in the spring, and only a partial recovery is expected. Industrial production dropped 38% between February and April, and muted international demand suggests that the recovery in capacity utilisation rates will be gradual. Construction was less affected by the initial lockdown measures, but second-round effects from the recession may result in further output declines.

Hungary's GDP is projected to drop by 7% in 2020, after growing by 4.9% in 2019. Household consumption is forecast to decrease with the hit to labour income and higher precautionary saving. Investment, which was already on course for a slowdown before the pandemic, is projected to plummet from a record high level in 2019. Due to the recession, several ongoing projects are likely to be cancelled or put on hold. Exports are expected to drop sharply in 2020 because Hungarian exporters specialise in highly cyclical products (e.g. automotive), and in tourism and travel services which will remain constrained by physical distancing measures. The cyclical recovery could lift GDP by 6% in 2021, supported by all final demand components.

Employment fell by nearly 3% between February and April according to the Labour Force Survey, with many more on furlough but officially still in employment. Establishment data point to a larger, 5.8% drop in the number of employees in the same period. Around 4% of workers participate in the temporary wage subsidy scheme, working reduced hours. The first signs of improvement have emerged with rising monthly employment in May and a decreasing number of registered jobseekers in mid-June. Unemployment is set to decrease gradually as the economy recovers, and persistent slack in the labour market could keep real wage growth muted in 2020 and 2021.

Inflation has slowed since the COVID-19 outbreak on the back of falling fuel prices and the impact of the recession on service prices. However, food inflation has remained high due to commodity price increases and supply disruptions. Indirect tax hikes on fuel and tobacco will have raised consumer prices in July. Inflation is projected at 3.5% in 2020, similar to the 3.4% in 2019. It is set to decrease to 2.8% in 2021 as the food price shock recedes.

*Graph 2.24:* **Hungary - Real GDP growth and contributions**