

2.24. HUNGARY

Hungary's economy continued its recovery from the economic shock of the pandemic at the beginning of the year. Real GDP rose by 2% q-o-q in the first quarter of 2021. Recent economic indicators suggest that the recovery may have paused in the second quarter, partly due to persisting supply chain disruptions affecting the automotive industry. The recovery is forecast to resume in the second half of the year as the pandemic recedes and the economy reopens. The expected rebound is signalled by the recent improvement in business and consumer confidence. Growth is set to be driven by the gradual recovery of consumer demand for services, high investment activity supported by EU funds and accommodative fiscal policies. Exports should also make a significant contribution thanks to the supportive external environment and the expected revival of intra-EU tourism.

Annual GDP growth is forecast at 6.3% in 2021, followed by 5.0% in 2022. This is a more front-loaded profile for the economic recovery than what was projected in the spring. The revision reflects data for the first quarter which indicate a milder impact of health-related restrictions on economic activity. Upside risks to the forecast stem from the potential introduction of further stimulus measures, notably a proposed personal income tax refund for families with children ahead of the 2022 elections.

The signals from the labour market are more mixed. In the first quarter of 2021, seasonally adjusted employment remained 1.1% below its pre-pandemic level (in the last quarter of 2019), and vacancy statistics do not yet suggest a strong recovery of aggregate labour demand. Monthly data also point to a slight deceleration of private sector wage growth in the first quarter of 2021. At the same time, firms' perceptions of labour shortages have increased recently and wage growth has held up better in the sectors where such shortages were reported. This could reflect mismatches in terms of the location of employment opportunities and prospective workers, as well as mismatches in the types of jobs available and the skills of the labour force. As a consequence, wage growth may remain elevated despite the more gradual recovery of employment.

The HICP rose by 5.3% in May 2021 driven by higher fuel prices and recent excise duty increases. The pass-through of the forint's past depreciation and the repricing of various services after the reopening of the economy may continue to add to inflation in the coming months. The re-emergence of labour market bottlenecks could also fuel inflation in 2022. Overall, inflation is forecast at 4.4% in 2021 and 3.3% in 2022.

Graph 2.24: Hungary- Real GDP growth and contributions

