## 2.24. HUNGARY

Hungary's economy bounced back by 11.4% q-o-q in the third quarter of 2020 after the first lockdown to contain the pandemic ended. Industry, construction and retail sales remained strong in October and November. However, the rebound was interrupted by a second wave of the pandemic, which led to another round of restrictions from mid-November that mainly affected the hospitality, leisure and entertainment sectors. As a consequence, GDP is expected to have decreased slightly in the fourth quarter of 2020. Overall, Hungary's GDP is expected to show a 5.3% contraction in 2020, mostly driven by plummeting investment and service exports. Consumption is also likely to show a decrease given the fall in household income and confidence and the limited opportunities to consume certain services during the lockdown.

The current containment measures will start to be eased only once case numbers drop substantially or vaccines become widely available, thus they will remain a drag on GDP growth in the near-term. In addition, the manufacturing sector faces supply chain disruptions, which could hinder production in the short-term. The assumed easing of public health measures should set the stage for a quick rebound in economic activity from mid-2021. GDP is forecast to grow by 4% in 2021 and by 5% in 2022, supported by all final demand components. There are upside risks to this forecast as the baseline projection does not include any measures funded by the Recovery and Resilience Facility.

The unemployment rate stood at 4.3% in December 2020, almost unchanged compared to previous months. However, an increasing share of employees reported zero working hours and household unemployment expectations also rose. The government has provided some support to preserve employment in the sectors most affected by the second lockdown, which is mitigating its negative economic impact. Job creation is expected to resume after the economy returns to growth, but lingering labour market slack is likely to temper wage growth.

Inflation eased in the last months of 2020 as food and fuel prices decreased. HICP inflation was at 3.4% in 2020 and it is projected to remain at 3.5% in 2021 due to the pass-through of earlier currency depreciation and rising excise duties on tobacco. After these temporary factors fade, inflation is expected to ease to 2.9% on the back of the subdued growth of unit labour costs.

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