

2.24. HUNGARY

Hungary's economy regained its growth momentum at the end of 2021. Supply chain disruptions in manufacturing weighed on GDP growth in the third quarter of the year (0.7% quarter-on-quarter), but industrial production has started to recover since September. Meanwhile, construction and services continued to grow as no major pandemic-related restrictions were introduced. GDP is estimated to have expanded by 6.5% in 2021.

Economic growth is forecast to slow down to 5.0% in 2022. Significant stimulus measures aim at boosting consumption in 2022, including a one-off PIT refund to families, and large administrative wage increases. However, high inflation is eroding households' purchasing power and denting consumer confidence. The expansion of investment is set to be limited by the authorities' decision to decrease the 2022 budget deficit target by 1% of GDP mainly through cutting public investments. Export growth is set to remain dynamic thanks to the assumed, gradual easing of supply chain constraints and the projected recovery of international tourism flows. GDP growth is forecast to slow further to 3.2% in 2023, after economic activity returns to its pre-pandemic trend and the temporary policy support is phased out.

Inflation remained high in recent months, with HICP growing by 7.4% year-on-year in December 2021. Consumers have been shielded from wholesale energy price increases by the unchanged regulated prices of residential energy and a temporary cap on motor fuel prices. However, core inflation has continued to rise, reflecting broad-based inflationary pressure. The government introduced temporary price controls for some essential food items as of 1 February, which are estimated to reduce inflation in 2022 by 0.1 percentage point. Inflation is forecast to rise further from 5.2% in 2021 to 5.4% in 2022 on the back of higher production costs and strong consumer demand. It is then projected to ease to 3.6% in 2023 as the impact of cost shocks fades.

