Equilibrium Institute

PRESS RELEASE

ECONOMIC FORECAST OF THE EQUILIBRIUM INSTITUTE - WINTER 2022

ACCORDING TO THE ANALYSIS OF THE EQUILIBRIUM INSTITUTE, ECONOMIC GROWTH IN HUNGARY WILL BE 5 PERCENT THIS YEAR AND 0.1 PERCENT NEXT YEAR

The Equilibrium Institute has published its 2022 winter economic forecast. The domestic and international environment is currently affected by many rapidly changing circumstances. The independent think tank's economic forecast, published quarterly mainly supports the decision-makings of economic actors and public policy makers. Based on the macro figures for the period between 2022 and 2024, Hungary can expect growth in line with European trends, but probably a worse growth and higher inflation.

The top messages of the 2022 winter forecast:

Hungarian GDP growth is expected to be 5 percent in 2022 and 0.1 percent in 2023. In the coming years, exports may be the engine of growth in Hungary, while the previous engines of growth, i.e. consumption and investment, may stop at the same time. The assessment of the Equilibrium Institute also pointed out that households are in an extremely strained situation, a third of Hungarians would not be able to cope with an extraordinary HUF 100,000 (EUR 250) spending. Based on our current knowledge, we consider the situation of the budget to be stable, but the risks are increased.

Inflation is expected to be 14.5 percent in 2022 and 17.5 percent in 2023. Inflation was basically cost-driven (mainly due to rising energy and raw material costs), but there are also significant demand-side factors (high savings stock, state subsidies), the persistence of which fuels inflation. The price increase will reach its peak in early 2023, which will continue to be driven by food. Removing the gasoline price cap increases inflation by 2 percentage points. The Equilibrium Institute expects the termination of food price caps in 2024, given that by then, inflation will be close to a single digit. The think tank's analysis also pointed out that, due to methodological reasons, real inflation may even be higher than the official consumer price index (CPI), and consequently, the purchasing power of income may be even lower in Hungary.

The employment rate in Hungary will be 64.1 percent in 2022 and 63.5 percent in 2023. Meanwhile, the unemployment rate will be 3.6 percent and 4.1 percent respectively. The labour shortage is expected to ease, but we will face a two-speed labour market. On the one hand, there will be layoffs in many sectors (mainly tourism and catering), but at the same time, labour demand may remain high in export-oriented sectors. The think tank does not expect high unemployment either. The construction industry will have a negative impact on employment as both public and private orders (some of which were state-subsidised) will fall at the same time. In addition to a guaranteed minimum wage increase of 13 percent, we expect an average wage increase of 14.3 percent in the competitive sector next year. Real incomes may decrease by around 9 percent next year.

The exchange rate of the Euro is foreseen to be HUF 394 on average this year, and HUF 411 on average in 2023 . The forint exchange rate was primarily driven by country-specific factors. The three most important of these are the MNB interest rate policy, budgetary measures and intervention in monetary areas, in addition,uncertainties arising from foreign policy. In the longer term, the forint may weaken further, but if the country-specific factors ease, the Equilibrium Institute does not expect the rapid weakening of the forint, which was seen this spring and autumn.

The forecast is surrounded by many risks that are difficult to calculate. Most of them continue to point in the direction of weaker growth and higher inflation, but at the same time, signs of easing inflation have appeared in the world economy. The most important risk factor is the possible delay in the arrival of EU funds. Furthermore, logistical challenges in the energy market (availability), a faster drop in demand in the construction industry and a possibly protracted European recession would all move the outlook in a negative direction compared to our baseline. Among the external factors affecting the Hungarian economy, the easing of external inflationary pressure can positively influence the data. On the other hand, it could also result in a more favorable development of domestic inflation.

The main figures of the Equilibrium Institute's forecast are summarized in the table below:

	2022	2023	2024
Real GDP change (year/year, %)	5.0	0.1	3.1
Real consumption of households (year/year, %)	5.2	-4.7	1.7
Real change in investments (year/year, %)	8.0	-5.0	2.0
Consumer price index (inflation, year/year, %)	14.5	17.5	5.0
Private sector employment (year/year, %)	2.0	-1.2	0.0
National employment (year/year, %)	1.2	-1.3	-0.3
Net average salary in the private sector (year/year, %)*	15.2	14.3	11.1
National average net salaries (year/year, %)*	17.3	12.7	11.1
Change in real income (year/year, %)	2.5	-9.1	1.2
EUR/HUF exchange rate (annual average)	394	411	420

* Among those employed full-time.

The full economic forecast report of the Equilibrium Institute can be downloaded here.

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The Equilibrium Institute is an independent think tank in Hungary. Based on the vision Hungary 2030, we are working to create a smart and clean country based on the community of Hungarians. To this end, we write attractive and feasible policy proposals, and we discuss them together with the best domestic and international experts. Our goal is that current and future political, economic and cultural decision-makers learn about, accept and implement our proposals.