



## The forecast of GKI Economic Research Co. for 2023-2024 (4/2023)

(Summary for the press. Closed: 13 December 2023)

By the autumn of 2023, the Hungarian economy **had passed the most difficult stage** of the crisis that arose due to the domestic economic consequences of the government's giveaways before the 2022 parliamentary elections and the global economic consequences of the Russian aggression against Ukraine. The external balance (the current account), which showed a dramatic deficit in 2022, turned positive in the second quarter of 2023, the recession ended in the third quarter, inflation became single-digit in October and access to EU transfers was within reach, albeit only very partially. At the same time, the general government deficit is much higher than planned; inflation was still the highest in the EU in October and it will be exceptionally high on an annual average. The expected economic downturn in Hungary this year is likely to be the second deepest (after Estonia). Economic growth is expected to be modest in 2024, faster than the EU average (1.3%) but only weak-medium (2-2.5%) in the region. The decline in inflation is likely to be severely curbed, while Hungary could be subject to an excessive deficit procedure for a general government deficit above 3%.

**GKI essentially confirms** its September forecast for 2023-2024. It expects **GDP** to decrease by 0.5% in 2023 and to grow by 2-2.5% in 2024. This forecast for 2023 was very pessimistic at the beginning of the year, but is now more optimistic. The fact that the Hungarian economy is expected to contract by only around 0.5% in 2023 is due to an expansion of **agricultural** GDP by around 60%. If agricultural GDP had only reached the 2021 level, the Hungarian economy would have contracted by around 2%. GKI did not change the forecasts for household consumption of -1.5% (but within this the final consumption is -3.5%), or +2% in 2024, and -10% and -2% for fixed capital formation also remained unchanged. (There may be a slightly greater decline in investments this year.)

In the case of **inflation**, GKI slightly decreased its projections from 18% to 17.7% in 2023 and from 7% to 6.5% in 2024. For 2024, this is only slightly higher than the government's forecast of 6%, but the main difference is in the **extent of change**. According to GKI, the decline in inflation between 2023 and the end of 2024 will be very modest. The MNB has been following a very **cautious interest rate policy** for a year. Since the unification of the benchmark and base interest rates, in October and November 2023, only 0.75 percentage point reductions were made, which were smaller than the fall in inflation, so a period of **positive real interest rates** began. However, according to GKI, due to the expected good inflation data, the interest rate may be cut again by 1 percentage point (to 10.5%) in December. In 2024, however, the interest rate cuts may slow down in parallel with the slowing down of inflation, and by the end of the year, at best, a base interest rate of 7% can be expected. In 2023, after several years of weakening, the **forint strengthened by an average of 2.5% annually**, and based on a comparison of year-end data, it is expected to remain roughly stagnant. After the HUF382 euro in 2023, if the strict monetary policy is maintained and the international political-economic environment remains substantially unchanged, including the possibility of at least partial additional access to EU transfers, only a **minimal weakening is likely in 2024**, with an annual average of HUF385 expected, with significant fluctuations.

However, the **general government deficit** in 2023 will certainly be higher than previously expected by GKI, possibly even higher than the 5.2% forecast raised by the government in November (5.7%). For 2024, however, the GKI does not change its forecast of 3.9%, which is already higher than the government's (2.9%), due to the lack of information—the government has declared that it will not yet address the revision of the 2024 budget, which has become completely unrealistic due to the changes this year—noting that a **substantial adjustment** would be needed to achieve this.



The **external equilibria in 2023** is expected to be more favourable than previously projected. The current account **surplus** could reach EUR1.3bn, after a deficit of EUR13.6bn last year. The current and capital account surplus may reach EUR4.3bn (over 2% of GDP), with inflows essentially left over from the previous European budget cycle. **In 2024, the improvement** in the current account will **slow down**, mainly due to the base effect and a more subdued increase in the foreign trade surplus. GKI expects a surplus of **EUR2bn** (almost 1% of GDP). So far, only **EUR1.4bn of EU capital transfers seem certain to arrive**, but GKI, with much uncertainty, sees the possibility of agreeing on a somewhat **larger amount**, roughly equivalent to EUR3bn in 2023. This is significantly less than the amount that would be available in the event of a return to the rule of law.

**Economic policies** based on short-term and power strengthening considerations, and prone to unjustified stimulus, are unlikely to change. However, this will not ensure sustainable growth based on a lasting reduction in inflation and the creation of equilibrium, nor will it strengthen competitive market relations or normalize relations with the EU.

### The forecast of GKI for 2023-2024

	2018	2019	2020	2021	2022	2023	2024
	(fact)					forecast	
GDP	105.6	104.7	95.2	107.5	104.9	99.5	102.2
• Agriculture	105.2	98.1	92.0	101.8	76.1	160	100
• Industry	102.9	103.3	92.4	105.9	102.7	96.5	105
• Construction	115.2	113.0	91.4	111.3	101.6	94	98
• Trade	110.6	105.9	101.7	106.9	100.9	94	103
• Commercial lodgings and catering	107.5	106.3	90.4	105.4	113.2	99	102
• Transport and storage	107.0	104.7	55.6	144.1	135.8	95	103
• Information and communication	110.5	110.4	106.5	119.9	107	102	104
• Financial services	105.2	113.6	104.6	110.4	95.4	101	100
• Real estate activities	104.5	102.8	100.3	102.1	112.6	100	100
• Professional, scientific, technical activities	109.0	106.4	96.6	116.5	112.0	95	100
• Public administration, education, healthcare	100.9	100.5	95.7	101.9	104.3	102	100
• Arts, entertainment	107.3	108.8	88.3	109.0	114.5	99	100



• Core growth	106.7	105.9	93.7	111.4	107.4	<b>94.3</b>	<b>99.6</b>
GDP domestic demand	107.1	107.1	97.4	106.3	103.7	<b>96</b>	<b>101.3</b>
• Private consumption	104.1	104.5	98.2	104.0	106.4	<b>98.5</b>	<b>102</b>
• Gross fixed capital formation	116.3	112.8	92.9	105.8	100.1	<b>90</b>	<b>98</b>
Exports (goods and services)	105.0	105.4	93.9	108.3	112.6	<b>101</b>	<b>102.5</b>
Imports (goods and services)	107.0	108.2	96.1	107.3	111.6	<b>97</b>	<b>101.5</b>
Consumer price index (preceding year = 100)	102.8	103.4	103.3	105.1	114.5	<b>117.7</b>	<b>106.5</b>
Unemployment rate (annual average)	3.6	3.3	4.1	4.1	3.6	<b>4.1</b>	<b>3.8</b>
General government balance in per cent of GDP (ESA)	-2.1	-2.1	-7.8	-6.8	-6.1	<b>-5.7</b>	<b>-3.9</b>
Balance of the current and capital accounts							
• EUR billion	3.3	1.6	1.2	-2.5	-9.1	<b>4.3</b>	<b>5</b>
• In per cent of GDP	2.4	1.1	0.9	-1.6	-5.4	<b>2.1</b>	<b>2.3</b>

Source: HCSO, MNB, MoF, **GKI**

**GKI ECONOMIC RESEARCH Co.**

1056 Budapest, Váci utca 84. fszt.2.

Phone: +36 30 014 7848 E-mail: [gki@gki.hu](mailto:gki@gki.hu)

For more information:

Gábor Karsai ([karsai.gabor@gki.hu](mailto:karsai.gabor@gki.hu)) and Raymund Petz ([petz.raymund@gki.hu](mailto:petz.raymund@gki.hu))