GKI Gazdaságkutató Zrt.

GKI envisages slower growth, higher inflation and a larger general government deficit than the government expects

The forecast of GKI Economic Research Co. for 2024 (1/2024)

The Hungarian economy entered a prolonged state of recession in 2023, while inflation declined significantly by the end of the year. Although there was a very positive turnaround in the external balance, the general government deficit even increased in 2023 compared to 2022. GKI did not change its slightly more pessimistic forecast of 2-2.5 per cent growth for 2024. However, it lowered its inflation forecast to 5.5 per cent, which is still typically more pessimistic than others. In addition, it forecasts a higher general government deficit (5 per cent) and a lower financing capacity of the Hungarian economy (around 1.5 per cent) than in December. The emphasis in economic policy, as declared, is on stimulating growth. This is expected to generate only limited additional growth due to the lack of budgetary resources and uncertain demand, while having an inflationary impact and hampering the improvement of the balance.

Economic policy—no new strategy. According to the government, the challenges facing Hungarian economic policy are due to external factors. As a result, no new economic strategy has yet been developed. As a result of the government's severely limited room for manoeuvre and the clash of growth-enhancing and balance-improving goals, it may return to a **moderated inflationary economic policy** in practice.

Consumption—2 per cent growth expected. With earnings rising by 11 per cent and inflation at 5.5 per cent, **real earnings** could rise by more than 5 per cent in 2024. The real value of **pensions** is expected to rise by around 0.5 per cent due to slightly lower inflation than the pension increase at the beginning of the year (6 per cent) (GDP growth, which will almost certainly remain below 3.5 per cent, does not allow pension premium to be paid). However, the real value of entrepreneurial incomes and social benefits tends to decline. Thus, **real income** will expand by about 3 per cent, while **purchased consumption** will grow slightly less (around 2.5 per cent).

Investments—a decrease of 2 per cent is likely. The government has also envisaged scaling back **public** investments this year. Incoming **EU transfers** are expected to be little or no more than last year's EUR2bn. Stimulating investments in the **business sector** is limited by budget constraints, the harmful consequences of forced interest rate cuts and the risks of investment decisions.

Real economic trends—in 2023, agriculture saved the Hungarian economy from a much bigger downturn, but in 2024 there is no real driving force yet. At the end of January, the stock of orders in **industry** and **construction** were 15-16 per cent lower than a year earlier. In industry, the improvement in economic activity in the second half of the year may bring a recovery (around 4 per cent growth), but in construction, a further decline of around 2 per cent is expected this year. As purchasing power increases, retail sales increase by 3 per cent.

General government—austerity intensifies after the elections, the excessive deficit procedure will be launched this year, albeit without sanctions. In addition to reducing the deficit from 6.5 per cent to 4.5 per cent, interest expenditure as a share of GDP will also have to increase by around 0.5 percentage points. **This requires a reduction in the primary balance of at least 2.5 percentage points, i.e., austerity measures.**

Inflation, interest rates, exchange rate—falling inflation will be followed by rising inflation, falling interest rates will be followed by a slowdown, and the forint is expected to weaken.