HIPA GUIDE

HIPA Hungarian Investment Promotion Agency
Non-Profit Private Company Limited by Shares

July 2024

ECONOMIC ANALYSIS DEPARTMENT

hipa

Contents

Summary **3**
1. Economic growth **4**
2. Manufacturing **7**
3. Foreign trade **9**
4. Inflation **12**
5. Labour market **14**
Earnings 14
Employment 14
Unemployment 15
6. Foreign Direct Investment (FDI) **18**
7. Research and development **20**

Closed on: 18 July 2024

Summary

- In Q1 2024, according to raw data, the GDP volume increased by 1.1% in Hungary compared to the same period of the previous year.
- In Q1 2024, the GDP decreased in 9 of the 27 countries of the European Union on an annual basis.

GDP

GDP volume: -0.9% (2023)

Prognosis (2024): 2.0–3.0% (MNB), 2.1% (OECD), 2.4% (EC)

- In the first four months of 2024, mainly the German and Czech relations were behind the annual decline in Hungarian Li-ion battery exports (EUR 756.1 million).
- In the first four months of 2024, Hungarian Li-ion battery exports to the second largest target market, the USA, increased by 49.8% in one year.
- 78.5% of Hungarian Li-ion battery exports is directed to Germany, the USA, Belgium, Italy and Mexico.

Foreign trade

Goods exports: -3.9%, EUR 49.0 billion (January–April 2024)

Goods exports: +6.1–7.9% (MNB prognosis, 2025)

- The Hungarian unemployment rate in Q1 2024 (4.6%) was the 8th lowest in the EU and was significantly lower than the EU average (6.3%).
- The Hungarian employment rate in Q1 2024 (64.7%) exceeded the EU average (61.3%) and was the 2nd highest among Central European member states.
- In the first 4 months of 2024, the average gross earnings increased by 12.6% (to HUF 638,000) on an annual basis in the competitive sector with a consumer price index of 3.7%.

Labour market

Unemployment rate: 3.5–4.0% (prognosis, 2025)

Average gross earnings in the competitive sector: +7.5–8.6% (MNB prognosis, 2025)

- In the first five months of 2024, the total production value of manufacturing amounted to HUF 21,463.6 billion.
- In terms of industrial production, the counties of Pest and Győr-Moson-Sopron, as well as Budapest, can be highlighted; altogether they accounted for more than one third (34.9%) of the total industrial output.

Manufacturing

The key sectors were the manufacturing of transport equipment (26.1% share), the manufacturing of food products (12.4%) and the manufacturing of electrical equipment (11.0%).

Production value: -1.6% (January–May 2024)

- In June 2024, the Harmonised Index of Consumer Prices (HICP) fell the most in 1 year in Hungary within the EU (from 19.9% to 3.6%). The Hungarian HICP exceeded the EU average (2.6%) only by 1 percentage point.
- According to the MNB, inflation will permanently return to the central bank target rate (3.0% ± 1%) in 2025.

Inflation

Consumer price index: 3.7% (annual, January–June 2024)

Average annual inflation: 3.0–4.5% (MNB prognosis, 2024)

- In 2023, the value of global FDI flows decreased by nearly 2%.
- The number of announced greenfield investments rose by 2% last year, and increased even more significantly in developing countries, by 15%.
- Based on the value of foreign direct investment inflows, the USA was ranked first among the target countries last year.

FDI

Value of global FDI flow: USD 1,332 billion (2023)

Number of announced greenfield projects: 18,442 (2023)

1. Economic growth

In Q1 2024, according to raw data, the GDP volume increased by 1.1% in Hungary compared to the same period of the previous year.[1] In the first three months of this year, the performance of manufacturing was also below the rate registered in the same period of the previous year (this time by 4.8%), which is mainly due to the decline in the manufacturing of electrical equipment, as well as the manufacturing of transport equipment. In contrast, the food industry was able to expand. Following its subdued performance last year, the construction recovered in the first quarter (Q1), its value added being 3.0% higher than in the same period of the previous year. The volume of construction production increased by 6.1% in the first five months of 2024, and the number of contracts at the end of May 2024 also increased by 6.0% compared to a year earlier.

Following three quarters of decline, the gross value added of services increased again (by 2.7%), which is mainly due to the expansion of the information and communication (9.8%), arts, entertainment, recreation and other services (7.3%), and education (6.6%) sectors. **For the GDP volume increase in Q1 2024, services (1.7 percentage points), taxes less subsidies on products (0.2 percentage points), as well as the construction (0.1 percentage points) contributed positively, while industry had a negative contribution (-0.9 percentage point). Agriculture has had no significant impact on the development of national economic performance.**[2]

On the expenditure side, the actual final consumption of households increased by 3.4% compared to Q1 2023. Household consumption expenditure also increased (by 3.6%), supported mainly by the increase in real wages, the gradual easing of the precautionary motive, and the improvement of consumer confidence. Here, it is important to note that after 13 months of moderation, a volume increase has been registered in the case of retail trade in every month of this year.[3] It is also important to mention that the volume of both construction investments and investments in machinery and equipment decreased.

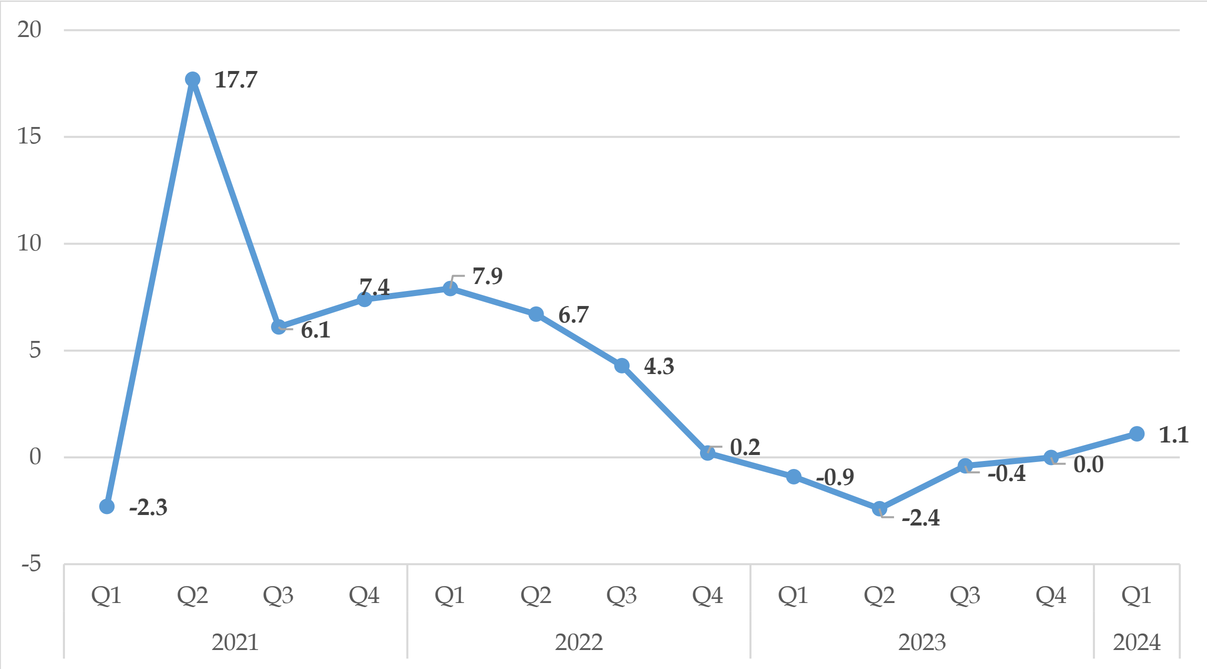
All in all, **the balance of foreign trade contributed 3.1 percentage points to the GDP performance in Q1 2024, while actual final consumption contributed 1.8 percentage points, and on the other hand, gross capital formation restrained it by 3.7 percentage points**.[4]

The gradual recovery of the economy will be supported by real wages rising in parallel with disinflation, the gradual recovery of consumer confidence, the newly announced capacity-expanding foreign direct investments and, in the long term, the ramp-up in the production of new industrial capacities. It is worth mentioning, however, that in the short term, the industry's performance will remain subdued, as evidenced by low order volumes and corporate confidence indices. **Almost all analysts' forecasts see growth in domestic demand as key to the increase in economic performance: in addition to positive real wage dynamics, the use of savings accumulated in the previous period, together with an increase in the**

[1] Source: KSH
[2] Source: KSH
[3] Source: KSH
[4] Source: KSH

consumption rate, may characterize the remainder of this year. Investments may still slow down economic growth in 2024: public investments will certainly decrease, while private investments may increase.

GDP growth in Hungary (%, compared to the same period of the previous year, based on unadjusted, raw data)



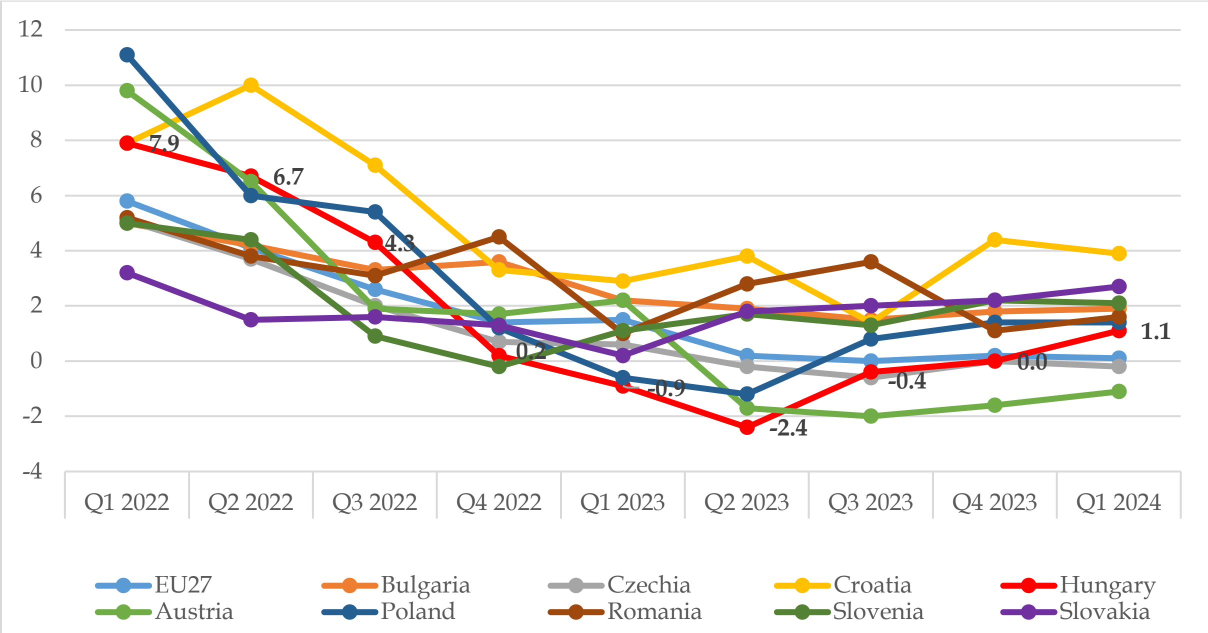
Source: KSH (Hungarian Central Statistical Office)[5]

The Hungarian National Bank (Magyar Nemzeti Bank, MNB) expects a GDP increase of 2.0–3.0% for 2024 and 3.5-4.5% for 2025.[6] According to the central bank's expectations, in the first half of this year, market services, the expansion of household consumption, net exports, and the dynamization of corporate and residential investments could support the gradual rise of GDP.

Looking at Q1 2024, economic growth in the majority of European economies was in line with analysts' expectations; however, at the same time, the economic performance of the European Union remains moderate. The past period has been characterized by a decrease in the volume of industrial production, as well as an improving but still low level of consumer confidence. The disinflationary process has stalled compared to the previous quarters, the business climate has remained low, European production prospects are still not encouraging, and geopolitical tension also persists. The entire global value chain has suffered in the recent period, and due to the precautionary motive of households there is no demand for industrial goods, even though stocks have been replenished. The GDP decreased in 9 of the 27 countries of the European Union on an annual basis.

[5] Source: KSH
[6] Source: MNB

GDP growth of regional countries on an annual basis (%, Q1 2022–Q1 2024)



Source: Eurostat[7]

According to Eurostat data, in Q1 2024, in terms of the Visegrád countries, an expansion of 2.7% was recorded in Slovakia, 1.4% in Poland, and 1.1% in Hungary, while a decline of 0.2% was registered in Czechia. The economic performance of the Eurozone has almost stagnated (+0.1%), and overall, it can be stated that among Central and Eastern European countries, the Croatian growth (3.9%) may be highlighted in a positive sense, while the Austrian decline (-1.1%) in a negative context.[8]

GDP growth of regional countries (%, forecast)

Country	OECD		European Commission	
	2024	2025	2024	2025
Hungary	**2.1**	**2.8**	**2.4**	**3.5**
Euro zone	**0.7**	**1.5**	**0.8**	**1.4**
Austria	0.2	1.5	0.3	1.6
Bulgaria	2.5	2.9	1.9	2.9
Czechia	1.1	2.4	1.2	2.8
Croatia	3.3	2.8	3.3	2.9
Poland	2.9	3.4	2.8	3.4
Romania	2.8	3.1	3.3	3.1
Slovakia	2.1	2.7	2.2	2.9
Slovenia	2.3	2.7	2.3	2.6

Source: IMF,[9] European Commission[10]

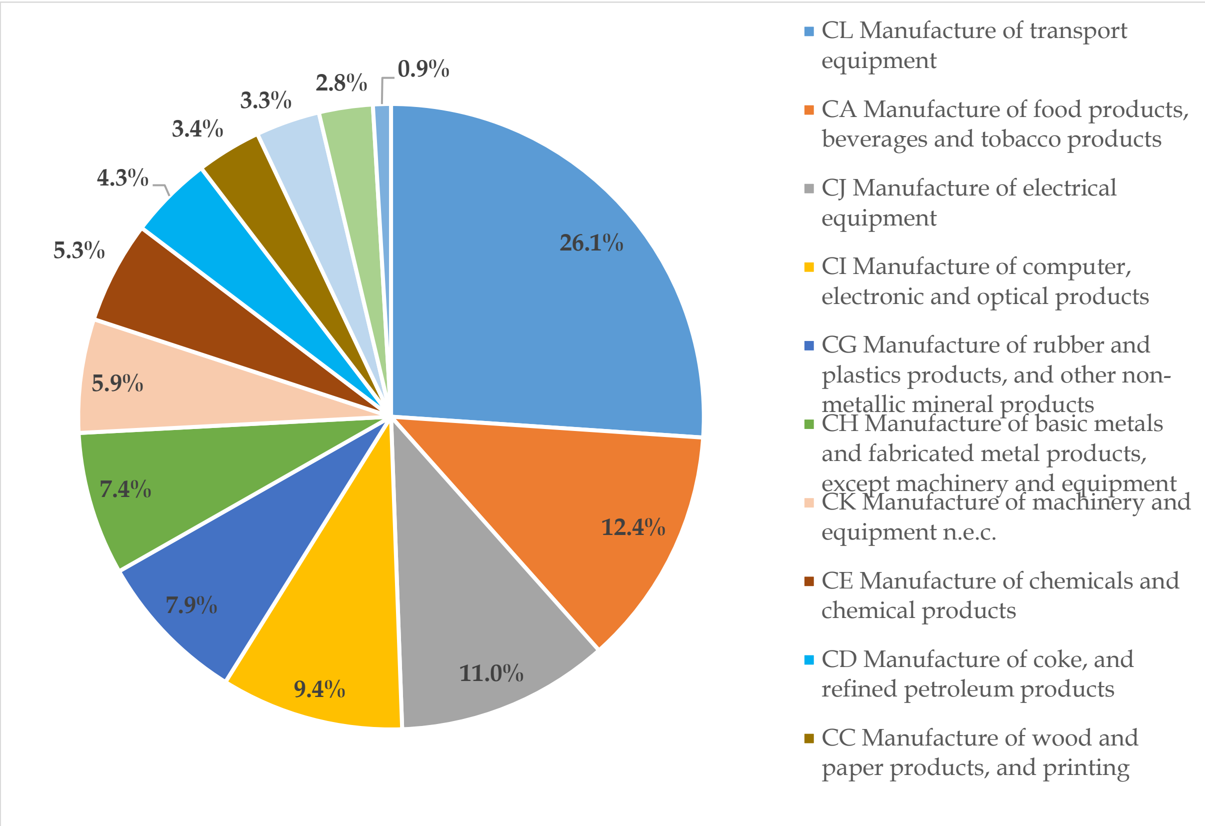
[7] Source: Eurostat
[8] Source: Eurostat
[9] Source: OECD
[10] Source: European Commission

It is a positive development that the international organisations expect growth in all the countries of the region for 2024 and 2025 as well; however, they are more cautious than in previous forecasts, and estimates have been revised downwards for several states. The largest expected annual growth will be 3.5% (namely in Hungary, in 2025, according to the European Commission). **Based on the forecasts of the OECD and the European Commission, growth in Hungary is expected to be 2.1–2.4% this year, and around 2.8–3.5% next year.**

2. Manufacturing

In the first five months of 2024, the total production value of manufacturing reached HUF 21,463.6 billion, which represents a 1.6% decrease compared to the same period of the previous year, and a drop of 3.1% was also registered based on the volume index.[11] The manufacturing of transport equipment accounted for 26.1%, the food industry for 12.4%, and the manufacturing of electrical equipment for 11.0% of the production output.[12]

Distribution of manufacturing production by sub-sector (January–May 2024)



Source: KSH

Examining the volume index of production in January–May 2024, expansion was registered in only two sub-sectors: the manufacturing of food products, beverages and tobacco products (+8.0%), as well as the manufacturing of wood and paper products, and printing (+0.8%). **However, a decrease was recorded in 11 of the 13 manufacturing sub-sectors.** The largest

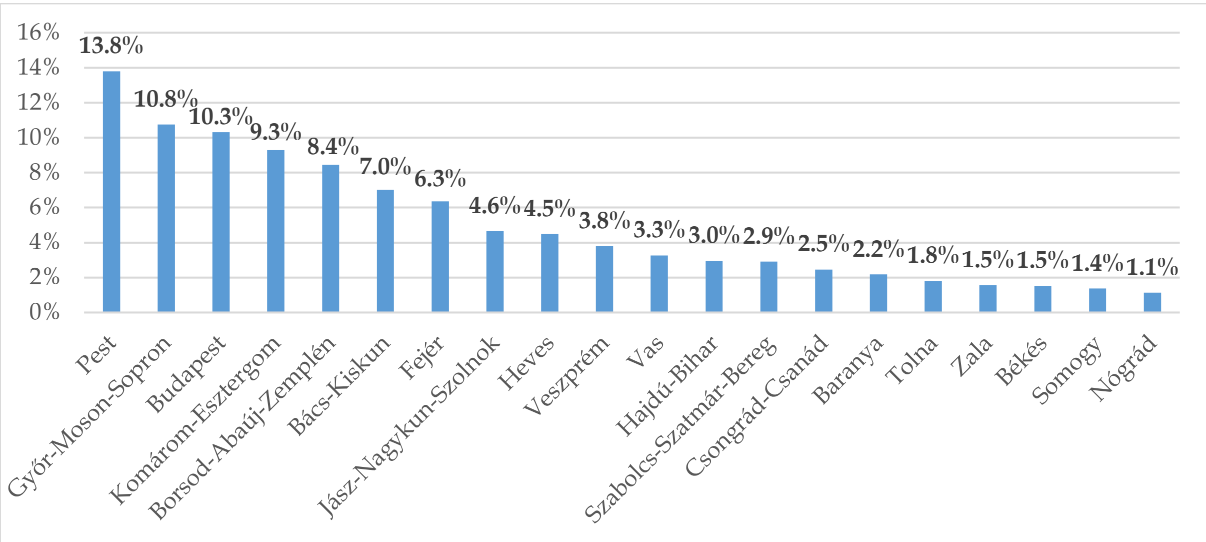
[11] Source: KSH
[12] Source: KSH

decline was experienced by the manufacturing of machinery and equipment (-9.0%), followed by the manufacturing of electrical equipment (-8.9%) and the manufacturing of textiles, wearing apparel, leather and related products by a decrease of 8.3%.[13]

The subdued performance of the industry may be primarily due to the slowdown in the export markets. Manufacturing is strongly export-oriented, therefore it is largely determined by the development of foreign markets. In Germany, i.e. one of our largest trading and economic partners, the decline in industrial production continued, showing a decrease in both monthly and annual comparisons; moreover, the German economic indices also forecast a mixed picture. In addition, it is important to note that both the volume of industrial exports and the volume of all new orders in the manufacturing sectors fell short in the volume registered a year earlier.

Examining the territorial distribution of total industrial production, **based on the data for the period January–May 2024, six counties were able to show growth**, the largest being **Tolna County with 16.4%**, and Csongrád-Csanád County with 3.7%, while in Somogy County **the volume of industrial production increased** by 3.0%. **On the contrary, the production volume decreased by 13.1% in Veszprém County**, while industry performance dropped by 8.2% in Békés County, and by 8.0% in Borsod-Abaúj-Zemplén County.[14]

Share of industrial output by county (January–May 2024)



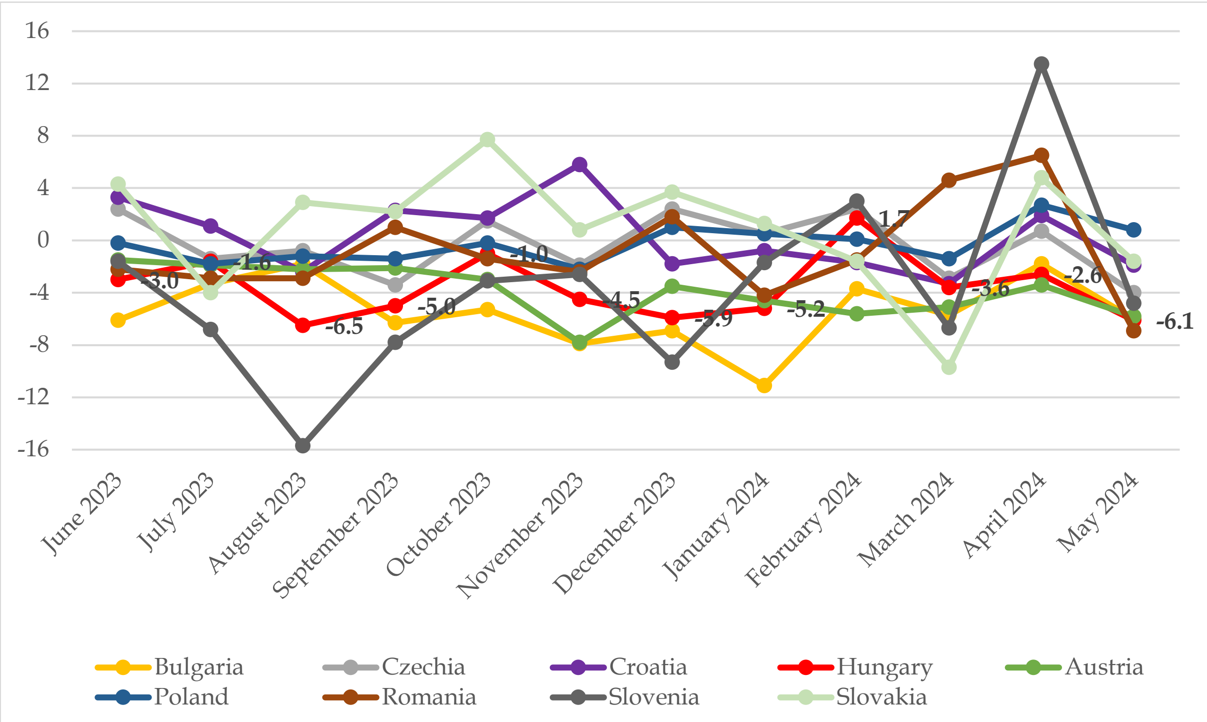
Source: KSH[15]

In terms of industrial output in Hungary, the counties of Pest and Győr-Moson-Sopron, as well as Budapest, can be highlighted; the 3 territorial units together accounted for more than a third (34.9%) of the total industrial output in the first five months of 2024. The lowest share was represented by the counties of Nógrád, Somogy, Békés and Zala, with shares of 1.1%, 1.4% and 1.5–1.5%, respectively.

[13] Source: KSH
[14] Source: KSH
[15] Source: KSH

Examining the 12-month period from June 2023 to May 2024, it can be concluded that regional manufacturing production has still not recovered and is lagging behind the stable growth it used to have. In the given period, the average monthly growth was positive in only two countries: in Slovakia (0.9%) and Croatia (0.4%). **Looking at the above time period, the average monthly decrease of the manufacturing production volume index of Hungary was 3.6%, thus we surpassed Austria (-3.9%) and Bulgaria (-5.5%) in the region.**

Manufacturing production volume index of the countries of the region on an annual basis (%, calendar-adjusted)



Source: Eurostat[16]

3. Foreign trade

In January–April 2022, the **value of Hungarian goods exports decreased by 3.9%** on an annual basis **to EUR 49.0 billion**, and the **value of goods imports by 12.3% to EUR 43.4 billion.** The **foreign trade balance of products improved by EUR 4.1 billion** in one year, and **the four-month surplus of EUR 5.6 billion is considered historically high.** The remarkable improvement in the foreign trade balance is mainly due to a substantial decline in imports, driven primarily by a **decreasing energy balance** and significantly **lower investment activity** compared to 2023.[17]

In January–April 2024, **38.4%** (EUR 756.1 million) **of the annual decrease of the EUR 1,968.2 million in Hungarian product exports was caused by the 24.3% drop in Li-ion battery exports.** In the first four months of 2023, Li-ion battery exports accounted for 6.1% (EUR 3,111.2 million) of the total Hungarian exports (EUR 50,991.0 million), and **by January–April 2024,**

[16] Source: Eurostat
[17] Source: KSH

this share dropped to 4.8% (to EUR 2,355.1 million). Despite the remarkable annual reduction of exports, Li-ion batteries continue to be the dominant export item of Hungary.

The evolution of Hungarian Li-ion battery exports according to the most important target markets (January–April 2023 – January–April 2024)

Ranking (Jan-Apr 2024)	TOP export partner country (Jan-Apr 2024)	Exports Jan–April 2023 (EUR million)	Exports Jan–April 2024 (EUR million)	Annual change (EUR million)	Annual change (%)
1.	Germany	1,481.2	977.9	-503.3	-34.0%
2.	USA	208.7	312.6	104.0	49.8%
3.	Belgium	285.0	244.3	-40.7	-14.3%
4.	Italy	260.1	182.4	-77.7	-29.9%
5.	Mexico	0.0	131.3	131.3	
6.	Slovakia	124.2	93.4	-30.8	-24.8%
7.	Czechia	340.2	83.3	-256.9	-75.5%
8.	Spain	86.2	80.7	-5.5	-6.4%
9.	United Kingdom	57.6	78.6	21.0	36.5%
10.	Türkiye	2.4	38.7	36.3	1,518.8%
11.	Netherlands	61.7	37.4	-24.3	-39.4%
12.	Austria	85.4	31.6	-53.8	-63.0%
The above 12 countries in total		**2,992.5**	**2,292.1**	**-700.4**	**-23.4%**
Total		**3,111.2**	**2,355.1**	**-756.1**	**-24.3%**

Source: KSH

In January–April 2024, 97.3% (EUR 2,292.1 million) **of Hungarian Li-ion battery exports was directed to eight EU and four non-EU countries.** Hungary's Li-ion battery exports to **Germany, which is the largest export market, dropped by 34.0% (EUR 503.3 million)** in one year, and to **Czechia, which is the seventh target market, by 75.5% (EUR 256.9 million). The amount of the annual decrease in the total Hungarian Li-ion battery export** (EUR 756.1 million) **was basically equal to the above-mentioned two export markets** of the product (EUR 760.2 million). In the case of the other export markets, the annual changes in Hungarian Li-ion battery exports balanced each other out.

It can be also observed that **out of the 12 most important destination markets for Hungarian Li-ion battery exports, Hungarian exports have only expanded in four non-EU relations** in one year. In January–April 2024, **Hungarian exports increased by 49.8%** (EUR 104.0 million) **to the United States, which is the second most important destination market, to Türkiye by 1,518.8%** (EUR 36.3 million), and **to the United Kingdom by 36.5%** (EUR 21.0 million). **Mexico**, where KSH did not register any Hungarian Li-ion battery exports in January–April 2023, was already **the fifth most important export market for Hungarian Li-ion battery exports** in the first third of this year **with a value of EUR 131.3 million.**

On the contrary, among the most important EU destination markets, **Hungarian Li-ion battery exports decreased to Czechia** (by 75.5%), **Austria** (by 63.0%), **the Netherlands** (by 39.4%), and **Germany** (by 34.0%) **at an above-average rate, to Italy** (by 29.9%) and **Slovakia** (24.8%) **at a**

close to average rate, and **to Belgium** (by 14.3%) and **Spain** (by 6.4%) **at a below-average rate.** While **in January–April 2024, the total Hungarian Li-ion battery exports shrank by almost a quarter (24.3%) in one year,** to **the United States, Mexico, the United Kingdom and Türkiye, which are considered the four most important non-EU export markets**, overall Hungarian Li-ion battery exports **doubled**.

Realignment of the most important target markets for Hungarian Li-ion battery exports (January–April 2023 – January–April 2024)

Ranking (Jan-Apr 2023)	Ranking (Jan-Apr 2024)	TOP export partner country (Jan-Apr 2024)	Exports Jan–April 2023 (EUR million)	Exports Jan–April 2024 (EUR million)	Export share Jan–April 2023 (%)	Export share Jan–April 2024 (%)
1.	1.	Germany	1,481.2	977.9	47.6%	41.5%
5.	2.	USA	208.7	312.6	6.7%	13.3%
3.	3.	Belgium	285.0	244.3	9.2%	10.4%
4.	4.	Italy	260.1	182.4	8.4%	7.7%
66.	5.	Mexico	0.0	131.3	0.0%	5.6%
6.	6.	Slovakia	124.2	93.4	4.0%	4.0%
2.	7.	Czechia	340.2	83.3	10.9%	3.5%
7.	8.	Spain	86.2	80.7	2.8%	3.4%
10.	9.	United Kingdom	57.6	78.6	1.9%	3.3%
19.	10.	Türkiye	2.4	38.7	0.1%	1.6%
9.	11.	Netherlands	61.7	37.4	2.0%	1.6%
8.	12.	Austria	85.4	31.6	2.7%	1.3%
The above 12 countries in total			**2,992.5**	**2,292.1**	**2,992.5**	**2,292.1**
Total			**3,111.2**	**2,355.1**	**3,111.2**	**2,355.1**

Source: KSH

Hungarian Li-ion battery exports to Germany **have reduced to about two-thirds in one year.** Nevertheless, **Germany remains the main export market for the product with a share of 41.5%**. **Belgium** (3rd place), **Italy** (4th place), **Slovakia** (6th place) also **maintained their position from last year's export market ranking**, despite the decline in Li-ion battery exports. **Among the most important export markets for Hungarian Li-ion battery exports, Czechia** (from 2nd place to 7th place), **Austria** (from 8th place to 12th place) and **the Netherlands** (from 9th place to 11th place) had **the most significant loss of position**. While in January–April 2023, Hungary exported EUR 487.3 million worth of Li-ion batteries to these **three EU member states**, **the export value of this product decreased to less than a third (to EUR 152.3 million) in one year.**

The advance of the non-EU export markets is clearly indicated by the fact that while **in January–April 2023, only the United States** (5th place) **and the United Kingdom** (10th place) were among the 12 most important export markets for Hungarian Li-ion battery exports**, a year later, Mexico moved from 66th place to 5th place, and Türkiye from 19th place to 10th place**, taking over their previous positions in the ranking, while **the United States** (to 2nd place) and **the United Kingdom** (to 9th place) **stepped forward**. While in January–April 2023, **the United States, Mexico, the United Kingdom and Türkiye** received a total of 8.6% (EUR

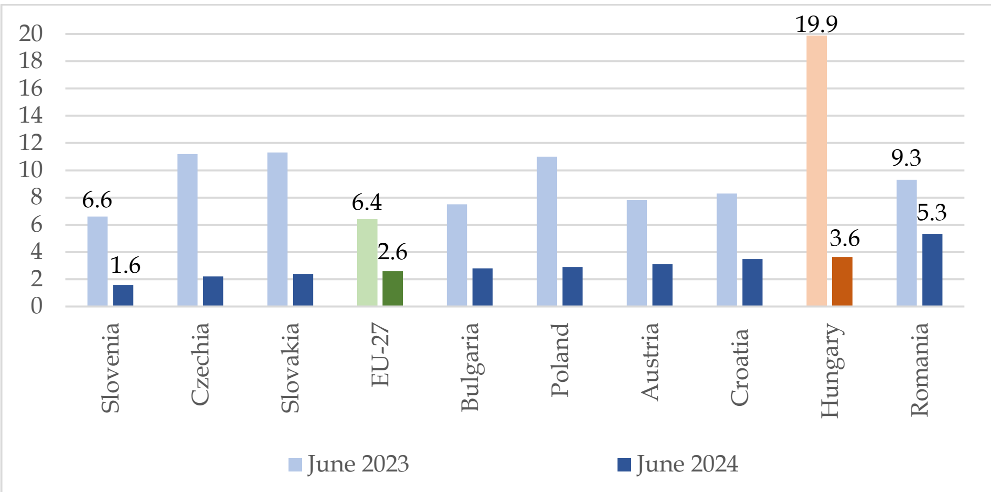
268.6 million) of the entire Hungarian Li-ion battery exports, **in January–April 2024, 23.8% (EUR 561.2 million) of the total Hungarian Li-ion battery exports was already directed to these four non-EU countries.**

The **total Hungarian goods exports** are expected to **grow substantially from next year.** According to the MNB, **the main reason for the currently restrained Hungarian exports is the unfavourable development of the European economy and** the resulting **decrease in external demand**. However, **the competitiveness of the Hungarian export has not been harmed, so exports can be once again an important factor in GDP growth in the mid-term.** The expansion of exports will be supported in the medium and long-term by greenfield investments in manufacturing related to battery production and the automotive industry, therefore export growth may be more dynamic from 2025. The **MNB forecasts an export expansion of 0.6–1.4% in 2024 and 6.1–7.9% in 2025.**[18]

4. Inflation

In June 2024, **the Harmonised Index of Consumer Prices (HICP)** used by Eurostat **in the European Union was 2.6%** (6.4% a year earlier). Among the member states, **the highest average price increase was measured in Belgium** (5.4%), **Romania** (5.3%), **Hungary** and **Spain** (3.6–3.6%). Finland (0.5%), Italy (0.9%) and Lithuania (1.0%) had the lowest HICP rates. In June 2024, **among the Central European EU member states, inflation fell below the EU average** (2.6%) **in Slovenia** (1.6%), **Czechia** (2.2%), and **Slovakia** (2.4%). In one year, **among the Central European EU member states, the largest drops in inflation rate were registered in Hungary** (16.3 percentage points), **Czechia** (9.0 percentage points), **Slovakia** (8.9 percentage points) and **Poland** (8.1 percentage points). At the same time, the rate of inflation **decreased by 3.8 percentage points on average in the EU compared to June 2023.**[19]

Evolution of the Harmonised Index of Consumer Prices (HICP) in the Central European Union member states (June 2023–June 2024, %)



Source: Eurostat

[18] Source: MNB
[19] Source: Eurostat

Based on KSH data[20], **in June 2024, the average consumer price index in Hungary was 3.7%, and core inflation[21] was 4.1%.** Compared to June 2023, **the price of services increased at the fastest rate (9.7%)**, including, for example, motorway tolls, rent a car, parking by 10.5%, repairs and maintenance of vehicles by 10.1%, repairs and maintenance of dwellings by 9.8%, sports and museum tickets by 8.2%, and recreational services by 3.0%. **The price of alcoholic beverages and tobacco (4.2%)** as well as **clothing and footwear (4.1%) increased at an above-average rate.** Within the product category of other goods included motor fuels and lubricants, **pharmaceutical products cost 6.1% more** as well as **motor fuels by an average of 3.2% more** than in June 2023.

In June, **food prices increased** at a below-average rate, overall, **by 1.1%.** In one year, mostly sugar (27.4%), buffet products (9.2%), chocolate and cocoa (9.1%), fruit and vegetable juice (8.7%), espresso coffee (8.6%), meals at restaurants, canteens (8.0%) and pork (7.8%) became more expensive. Among food, the price of eggs decreased by 22.3%, flour by 19.2%, potatoes by 13.2%, dairy products (except for cheese) by 10.2%, pasta products by 10.0%, bread by 8.2%, milk by 6.2%, and poultry meat by 5.5% compared to June 2023. **The average price of household energy supply decreased by 2.7% in one year**, including a price reduction of 5.2% in natural gas and 2.4% in electricity, measured by KSH. **Consumer durable goods cost 1.3% less**, within which the price of second-hand passenger cars decreased by 8.8%, while the price of new passenger cars rose by 5.7% and the price of living, dining-room furniture by 2.1%.

At the beginning of 2024, inflation fell into the central bank's tolerance band (3%±1 percentage point). **Disinflation of services worldwide is slower** than that of the entire consumer basket. **The so-called retrospective repricing of certain market services** (e.g. banking and telecommunications) **can also be observed in Hungary.** This year, some service providers **adjusted their spring price increases to last year's average inflation**, which had a **remarkable inflationary effect** in the current inflation environment, which is lower than last year. In case of market services, **the rate of price increase is high** not only due to retrospective repricing, but **also due to increased demand and the higher work intensity of companies in the sector, which may prolong the disinflation of services.**[22]

MNB expects inflation in the coming months to remain within the central bank's tolerance band, close to its upper edge. **The decline in core inflation**, which indicates baseline processes, **is expected to stop in the second quarter and rise to a level close to 5.0% by the end of the year. Inflation is expected to permanently return to the central bank's tolerance band only in 2025.** The development of consumer prices is surrounded by substantial uncertainty, so the **MNB also provided a range forecast in its Inflation Report published on June 20, 2024.** [23]

---

[20] Source: KSH
[21] Note: Since April 2021, KSH has been applying a new methodology for calculating core inflation, the index no longer includes price changes for alcoholic beverages and tobacco products.
[22] Source: MNB
[23] Source: MNB

MNB inflation forecasts in June 2024 (2023–2026 annual average, %)

	2023 (fact)	2024	2025	2026
Inflation	17.6	3.0–4.5	2.5–3.5	2.5–3.5
Core inflation	18.2	4.1–5.3	2.7–3.5	2.7–3.3

Source: MNB

5. Labour market

Earnings

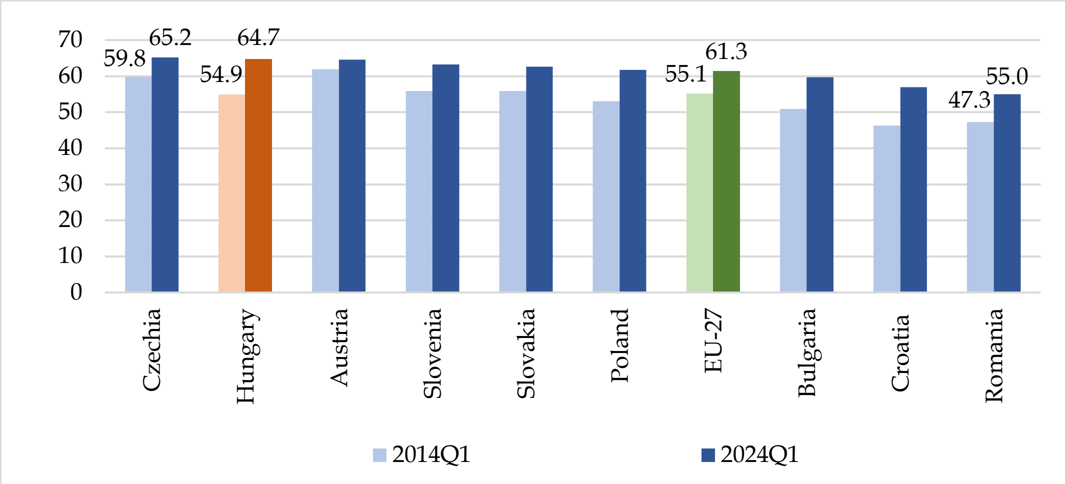
Based on KSH data, **in January–April 2024**, the **average monthly gross earnings** of full-time employees **in the corporate sector**[24] amounted to **HUF 638,000**, which is a **12.6% increase,** annually. In this sector, **the median value of monthly gross earnings was HUF 488,400**, which is 14.3% higher than the base value. **In January–April 2024, in the national economy** (calculated without fostered workers), the **average monthly gross earnings were HUF 628,600**, which means an **increase of 14.0% on** annual basis. The average gross earnings were the **highest in the financial services sector** (HUF 1,183,600), and the **lowest in the accommodation and food services** (HUF 415,600).[25] In 2024, nominal wage dynamics will be more moderate than last year, but **a substantial increase in real wages is expected**. This year's wage dynamics are primarily determined by the increase in the minimum wage at the end of last year, the easing labour market tightness and the rate of decline in inflation expectations. According to the **MNB**'s June 2024 prognosis, **average gross earnings in the competitive sector may increase by 11.0–11.6% this year, and by 7.5–8.6% in 2025. Real wages may rise by 7.0–7.6% in 2024 and by 4.4–5.5% next year** in the competitive sector.[26]

Employment

Based on **Eurostat** data, the **Q1 2024 Hungarian employment rate** (64.7%) **exceeded the EU average** (61.3%) **by 3.4 percentage points**, and thus **Hungary has the second highest employment rate among Central European member states** – after Czechia. **In ten years, the Hungarian employment rate increased by 9.8 percentage points**, which is **considered the seventh largest increase in the EU.**

[24] Note: calculated without fostered workers, for all enterprises with employees
[25] Source: KSH
[26] Source: MNB

Employment rate among the population aged 15–74 of the Central European Union member states (Q1 2014–Q1 2024, %)



Source: Eurostat

For more than 13 years, the guideline of employment policy in Hungary has been that the Government undertook to create 1 million new jobs and strives **to achieve full employment.** Based on KSH data, in Q1 2010, the number of employed people among the population aged 15–74 was still around 3.8 million (3,821.8 thousand people), and the employment rate was below 50% (49.8%). **In Q1 2024, more than 4.7 million people** (4,725.1 thousand) **were registered as employed**. Compared to Q1 2023, **the number of employed people increased by 29.3 thousand, and the employment rate rose from 64.2% to 64.7%.** In January–March 2024, **the employment rate was the highest in Budapest** (71.1%) and **Győr-Moson-Sopron County** (70.6%), apart from this only **Vas** (68.0%), **Komárom-Esztergom** (67.8%), **Pest** (67.6%), **Fejér** (66.7%) and **Veszprém counties** (65.6%) **exceeded the national average**. In Hungary, **the employment rate was the lowest in the counties of Tolna** (56.2%), **Somogy** (57.8%) and **Szabolcs-Szatmár-Bereg** (58.2%).

In March 2024–May 2024, out of 4,744.8 thousand people, 108.0 thousand employees worked in foreign locations, and 60.9 thousand people were employed as fostered workers. **The number of people working abroad increased by 7.1 thousand**, while **the number of fostered workers decreased by 8.0 thousand** compared to the same period of the previous year. Although the number of people employed in the national economy is **historically high**, employment may increase slightly this year due to the recovery of the economy. **After last year's 1.0% increase of employment in the competitive sector, the central bank predicts a rise of 0.1–0.3% this year.**[27]

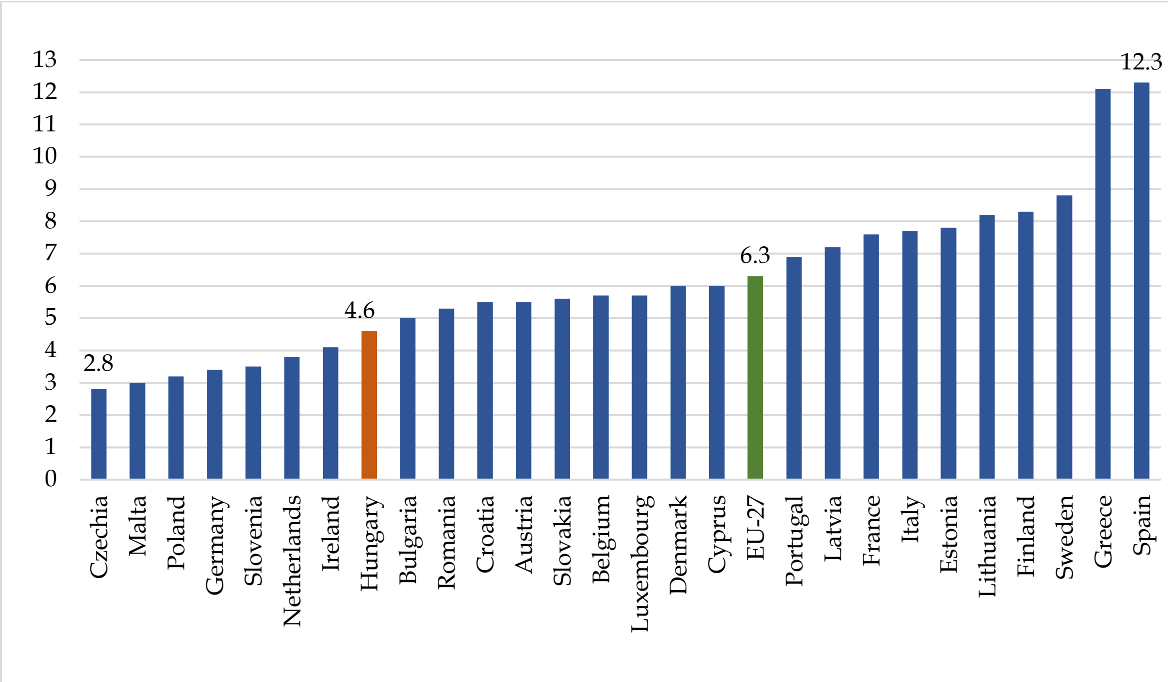
Unemployment

Based on **Eurostat** data, **the Hungarian unemployment rate of 4.6% in Q1 2024 was the eighth lowest in the EU** and – after Czechia, Poland and Slovenia – **the fourth lowest among Central European countries.** The Hungarian **unemployment rate** is less than three quarters of the EU

[27] Source: MNB

average (6.3%). In Hungary, the **unemployment rate decreased from 8.0% to less than three-fifths in ten years.**

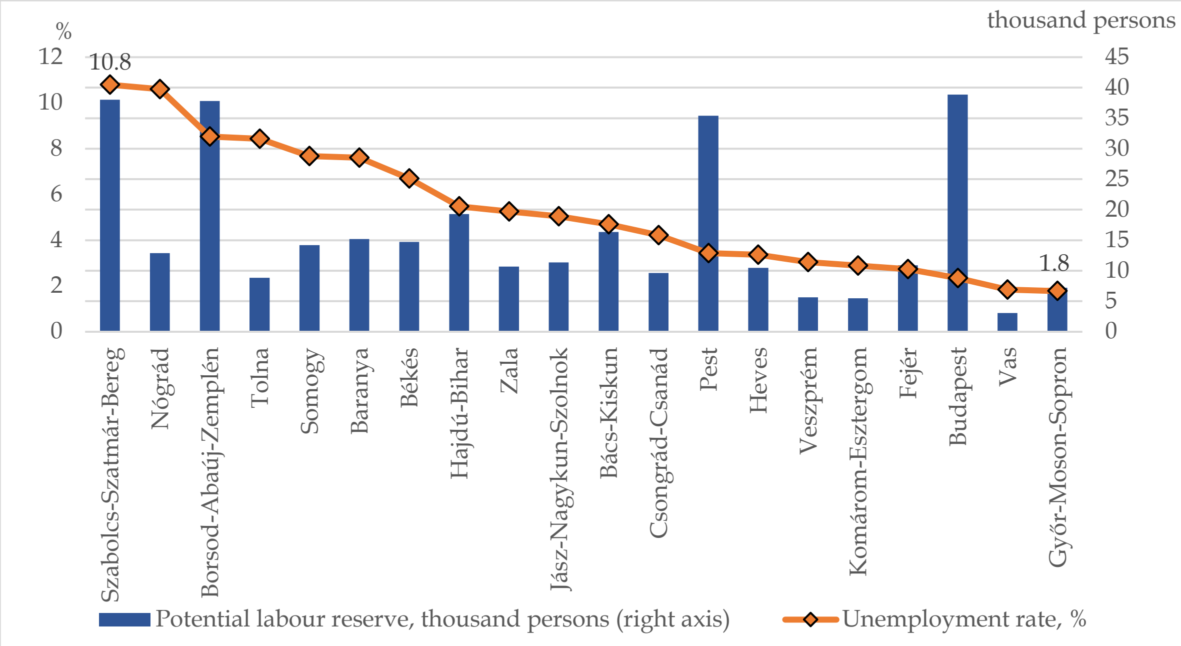
Unemployment rate among the population aged 15–74 in the EU member states (Q1 2024, %)



Source: Eurostat

According to KSH data, in Q1 2010, the number of unemployed among the population aged 15–74 was still close to half a million people (493.8 thousand), and the unemployment rate amounted to 11.4%. **In January–March 2024, the number of unemployed people was 229.1 thousand**, and **the unemployment rate was 4.6%.** Compared to Q1 2023, **the number of unemployed people increased by about 30.3 thousand**, and **the unemployment rate rose from 4.1% to 4.6%. Substantial geographical differences can be observed** regarding the unemployment rate. **In Q1 2024, the unemployment rate was the lowest in the counties of Vas and Győr-Moson-Sopron** (1.8–1.8%), and **the highest in the counties of Szabolcs-Szatmár-Bereg** (10.8%), **Nógrád** (10.6%) and **Borsod-Abaúj-Zemplén** (8.5%). **The unemployment rate was higher than the national average in the counties of the Northern Great Plain, and the Southern Transdanubia region**, as well as in the **counties of Borsod-Abaúj-Zemplén, Nógrád, Bács-Kiskun, Békés and Zala. More than half of the country's potential labour reserve** (326.0 thousand people) **is in the Great Plain and Northern Hungary** (170.5 thousand people, 52.3%), **about one quarter in Transdanubia** (81.3 thousand people, 24.9%), and **more than one fifth is located in the capital and Pest County** (74.3 thousand people, 22.8%). **Budapest** (38.9 thousand people), S**zabolcs-Szatmár-Bereg** (38.1 thousand people), **Borsod-Abaúj-Zemplé**n (37.8 thousand people), **Pest County** (35.4 thousand people) **have the largest potential labour reserves**; however, according to KSH data, **Hajdú-Bihar** (19.3 thousand people) and **Bács-Kiskun counties** (16.4 thousand people) **also have considerable potential labour reserves.**

Hungary's unemployment rate and potential labour reserve among the population aged 15–74 broken down by county (Q1 2024, % and thousand people)



Source: KSH

In March–May 2024, the number of unemployed people aged 15–74 increased by 27.2 thousand to 218.7 thousand compared to the same period of the previous year. In line with this, the **unemployment rate increased by 0.5 percentage points to 4.4%** in one year.[28] **Based on the data of the National Employment Service** (NFSZ) **222,755 jobseekers were registered in June 2024**, which means a **decline of 1,414** people (0.6%) **compared to the same period of the previous year.** Registered **jobseekers accounted for 3.6% of the working-age population.**[29]

The tightness of the labour market eases, and labour demand moderates. In Q1 2024, there were 44,245 vacant positions in the competitive sector, which is 12,769 (22.4%) **lower** than in the same period of the previous year. According to KSH data, **the number of vacant positions is decreasing in many sectors on an annual basis**, with the largest decline seen **in manufacturing** (34.1%) and the **information and communication sector** (30.6%). **The unemployment rate may fall in the rest of the year and next year as well.** Following last year's 4.1%, **according to the MNB's prognosis, the unemployment rate could be 4.2–4.3% in 2024 and 3.5–4.0% in 2025.**[30]

[28] Source: KSH
[29] Source: NFSZ
[30] Source: MNB

6. Foreign Direct Investment (FDI)[31]

Global FDI flows declined by nearly 2%, reaching USD 1,332 billion in 2023. If European countries considered to be leading financial hubs are not included, global FDI flows was 10% lower than the 2022 level.

The aggregate value of transactions involved in international project financing decreased by 26% worldwide in 2023, while **the value of mergers and acquisitions (M&A) declined by 46%**.

A growth of almost 9% was recorded in the developed economies, which is due to the performance of the European Union. In North America, on the other hand, the FDI inflow decreased by almost 5%. A decline of nearly 7% was registered in developing countries, the drop being particularly large in South Asia.

Development of foreign direct investment (FDI) between 2021 and 2023 (USD billion)

Area	2021	2022	2023	Change (2023/2022)	Change (2023/2022, %)
World	**1,622**	**1,356**	**1,332**	**-24**	**-1.8%**
Developed economies	**732**	**426**	**464**	**38**	**8.9%**
Europe	179	-106	16	122	
European Union	***267***	***-85***	***59***	***144***	
North America	450	379	361	-18	-4.7%
Developing economies	**890**	**930**	**867**	**-63**	**-6.8%**
Africa	82	54	53	-1	-1.9%
Asia	***667***	***678***	***621***	***-57***	***-8.4%***
East Asia	334	315	286	-29	-9.2%
Southeast Asia	208	223	226	3	1.3%
South Asia	53	58	36	-22	-37.9%
West Asia	64	72	65	-7	-9.7%
Latin America and the Caribbean	140	196	193	-3	-1.5%

Source: UNCTAD, based on FDI inflows

Overall positive developments in terms of greenfield investments took place last year. The number of announced greenfield projects increased by 2% to 18,442, the expansion being driven by manufacturing. The number of projects in developing countries rose by 15%, while in developed countries a 6% decline was recorded. A 10% drop was registered in the European Union. Most of the announced greenfield investments concern the United States (2,152 projects), the United Arab Emirates (1,323), the United Kingdom (1,184), India (1,058), and Germany (1,036).

Same as in 2022, the United States was the number one destination for FDI inflows last year as well. China also retained its second place. The first EU member state (France) is only in 7th place in the ranking.

[31] Source: UNCTAD

TOP20 destination countries for foreign direct investment (FDI) in 2023

Ranking	Country	FDI inflow (USD billion)
1.	**United States of America**	**311**
2.	**China**	**163**
3.	**Singapore**	**160**
4.	Hong Kong, China	113
5.	Brazil	66
6.	Canada	50
7.	France	42
8.	Germany	37
9.	Mexico	36
10.	Spain	36
11.	United Arab Emirates	31
12.	Australia	30
13.	Sweden	29
14.	Poland	29
15.	India	28
16.	Belgium	23
17.	Argentina	23
18.	Indonesia	22
19.	Japan	21
20.	Chile	21

Source: UNCTAD

The global environment remains challenging for international investment. Weakening economic growth prospects, trade and geopolitical tensions, the diversification of industrial policies and supply chains are prompting several multinational companies to take a cautious approach. The profit level of multinational companies, however, stays high, financing conditions are easing, and the growing number of announced greenfield investments will have a positive influence on FDI inflows. Accordingly, **moderate growth** for the entire year seems possible in relation to global FDI flows.

According to the findings of UNCTAD, in the case of the **TOP100 non-financial multinational companies** (MNEs), **since 2019, the geographical distribution of manufacturing projects** – especially in strategic sectors – **has shifted towards locations closer to major MNE home markets in Europe and the United States.**

7. Research and development[32]

In 2022, based on KSH data, the value of R&D expenditures totalled HUF 919.9 billion in Hungary, which is 1.4% higher than the level of 2021 and corresponds to 1.39% of the annual GDP.

In 2023, the value of R&D expenditures totalled HUF 1,032.4 billion, which is 12.2% higher than the level of 2022 and **corresponds to 1.38% of the annual GDP.**

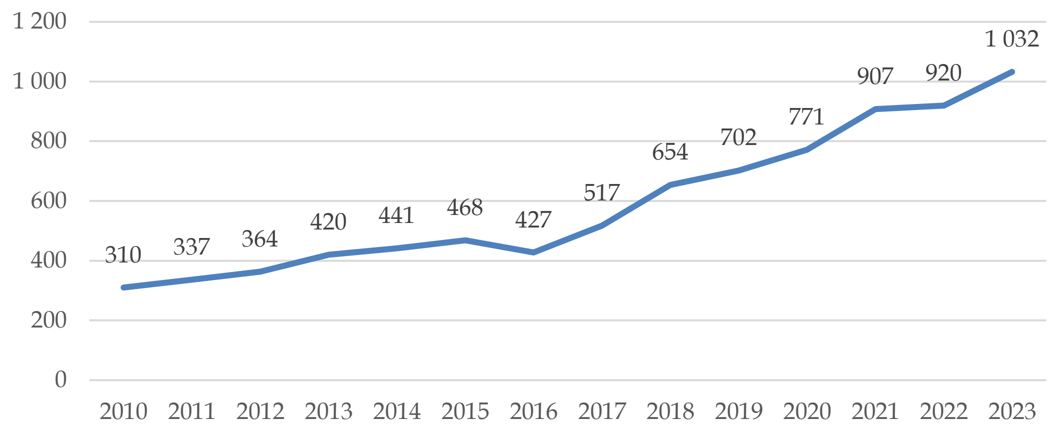
In 2023, the R&D expenditures of business research and development sites increased by 13.4% compared to 2022. Last year, it reached HUF 749.5 billion, which corresponds to 72.6% of the total R&D expenditures of the national economy.

In 2022, there were 3,252 research sites in Hungary. In 2023, the actual, total R&D headcount of research and development sites **decreased by 7.1% to 88,228 people.**

In terms of the source of R&D expenditures, in 2023, **business resources representing the greatest share increased by 24.3%,** approaching HUF 513.4 billion. **Resources from the government remained almost at the same level** (-0.8%), **while resources from abroad increased by 9.3%.**

Between 2010 and 2023, the value of R&D expenditures to GDP ratio rose from 1.13% to 1.38%. In terms of nominal value, they increased from HUF 310 billion to HUF 1,032 billion in the same period.

Development of total R&D expenditure of research and development sites between 2010 and 2023 (HUF billion)



Source: KSH

Based on the 2022 data, the R&D expenditure in relation to GDP amounted to an average of 2.24% in the European Union. The highest ratio was achieved by Belgium and Sweden with 3.43 and 3.4%, respectively, while the lowest was achieved by Romania with 0.46%. **Within the V4 countries, Hungary took the 3rd place ahead of Slovakia, and the 17th place in the European Union with a value of 1.39%.**

[32] Source: KSH