Q2 2023

HIPA Guide

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

ECONOMIC ANALYSIS DEPARTMENT

Contents

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Summary

- The decline in GDP in the first quarter (Q1) of 2023 is due to the decrease in industry, construction, final consumption and gross capital formation.
- In 2023, economic growth can be expected to slow down everywhere in the region; however, at the same time, the expansion of most countries in the region is expected to exceed 2.0% in 2024.

GDP

GDP volume: -0.9% (Q1 2023)

Prognosis (2023): +0.5% (EC), +0.5% (IMF), 0.0% (OECD)

- In January–April 2023, the production value of the manufacturing industry amounted to HUF 17,360.1 billion.
- In the first four months of this year, the key sectors of manufacturing production were vehicle production, the food industry and the production of electrical equipment.
- By regional comparison, the average volume index of Hungarian manufacturing production is in the middle range.

Manufacturing industry

Share of value added in the national economy: 20.0% (2021)

Production value: +12.6% (January–April 2023)

- Between Q4 2020 and Q4 2022 the quarterly value of electricity imports increased almost 5 times (to EUR 1.63 billion), and natural gas imports to 7.5 times (to EUR 3.30 billion).
- The Q1 2023 balance of foreign trade of goods showed a surplus (EUR 1.05 billion) again, following the boom in product exports and the decline in energy source imports.

Foreign trade

Export of goods: +12.0%, EUR 50.5 billion (January-April 2023)

Import of goods: +4.6%, EUR 49.1 billion (January-April 2023)

- In January-May 2023, consumer prices in Hungary increased by 24.4% on average.
- In May 2023, the consumer price index in the Central European member states exceeded the EU average (7.1%) without exception.
- According to MNB, disinflation may accelerate in H2 2023, so the annual average inflation may decrease to 3.5–5.5% by 2024.

Inflation

Consumer price index: 24.4% (annual, January-May 2023)

Annual average inflation: 16.5–18.5% (prognosis, 2023)

- The Q1 2023 Hungarian unemployment rate (4.1%) is barely two-thirds of the EU average (6.3%), and the 7th lowest in the EU.
- The Q1 2023 Hungarian employment rate (64.2%) exceeded the EU average (60.9%) and was the 3rd highest among Central European member states.
- In April 2023, gross average earnings in the national economy increased by 15.1% (to HUF 578,000) on an annual basis, while real earnings decreased by 6.9%.

Labour market

Unemployment rate: 3.6–3.7% (prognosis, 2023)

Gross average earnings in the competitive sector: +14.7–15.5%, (prognosis, 2023)

- In 2022, the value of global FDI flows decreased by more than 12%.
- The number of announced greenfield investments increased by 15% last year, and in developing countries it rose even more significantly, by 37%.
- Based on the value of inflowing foreign direct investments, the USA was in first place in the ranking of destination countries last year.

FDI

Value of global FDI flow: USD 1,295 billion (2022)

Number of announced greenfield projects: 17,598 (2022)

1. Economic growth

In the first quarter (Q1) of 2023, the volume of the gross domestic product in Hungary decreased by 0.9% compared to the same period of last year,[1] which can be mostly explained by the decline in the performance of industry (including the manufacturing industry and the energy industry), as well as the construction industry. Within the manufacturing industry, the production of chemicals and chemical products decreased to the greatest extent, in contrast, the production of road vehicles and electrical equipment increased.[2]

In the first quarter (Q1) of 2023, on the production side, the added value of industry decreased by 3.2% (including the manufacturing industry by 1.5%), while the construction industry decreased by 8.6% on an annual basis after almost two years of continuous expansion. The performance of agriculture expanded significantly compared to the low base in the same period last year, therefore its value added increased by 20.2%.[3]

The gross value added of services increased by 1.1%, which was primarily driven by the expansion of human health and social care (16.9%), financial and insurance activities (4.6%), as well as education (3.4%). **A 0.9 percentage point drop in industry and a 0.3 percentage point drop in the construction industry contributed to the 0.9% decrease in the gross domestic product in the first quarter (Q1) of 2023.** In contrast, **services improved the balance by 0.7 percentage points and the agricultural sector by 0.5 percentage points**.[4]

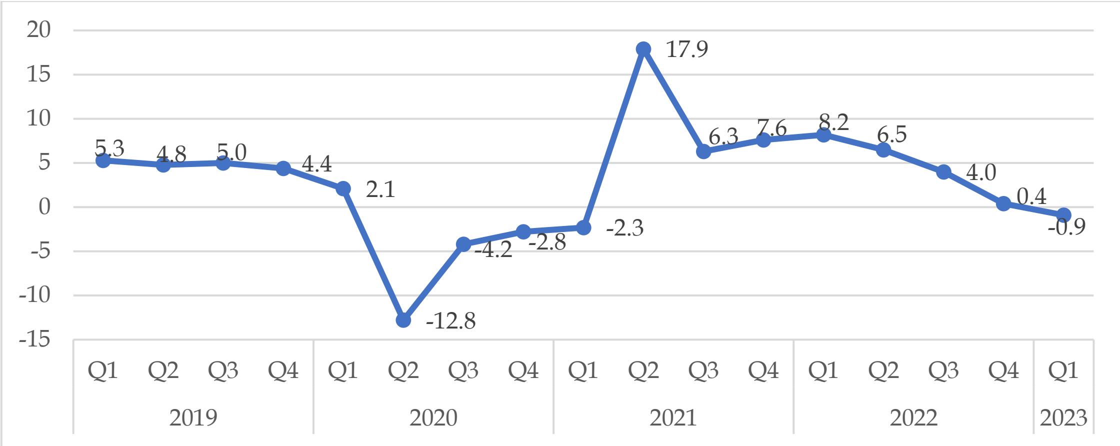
On the consumption side, the actual consumption of households decreased by 2.5% compared to the first quarter (Q1) of 2022. The consumption expenditure of households also decreased (by 3.9%): the volume of domestic consumption expenditure fell the most in the consumption of non-durable goods (9.0%) and services (2.3%). It is worth noting here that from December 2022 to April 2023, a decrease in volume was registered in the case of retail trade each month.[5]

Overall, behind the **decline** in the gross domestic product **in the first quarter (Q1) of 2023 is a 2.1 percentage point decrease in final consumption and a 3.3 percentage point decrease in gross accumulation. In contrast, the balance of foreign trade slowed down the decline in economic performance by 4.4 percentage points.**[6]

There are several factors behind this year's restrained growth. In addition to the decrease in real wages and the increase in company costs, cautious consumer decisions due to high inflation and investments postponed due to stricter fiscal policy both contribute to the moderation of domestic demand, on the other hand, net exports promote the expansion of GDP. After last year's drought, the low base agricultural performance will certainly improve economic growth.

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

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



Source: KSH (Hungarian Central Statistical Office)[7]

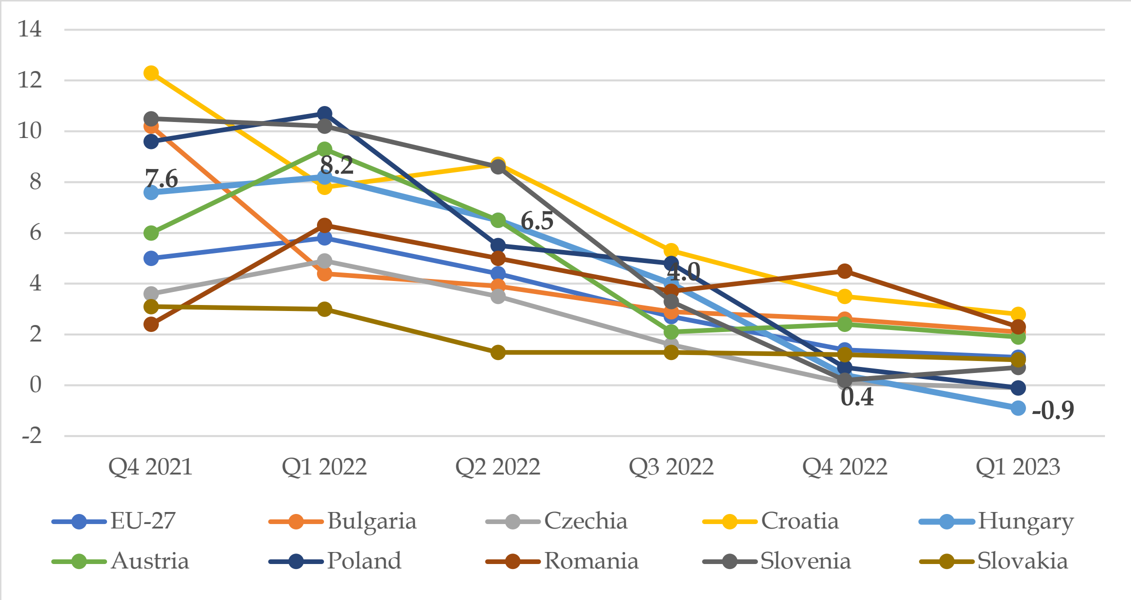
In the second half of the year, through the easing of monetary policy, investments may also pick up, while in the scope of services, tourism may contribute to growth in the summer months. As a result of disinflation, real incomes will rise, and in addition, employment at a constant high level, the launching of (announced larger manufacturing) investments and the ongoing significant capacity expansions also point in a positive direction.

At the same time, it is important to mention that a duality can be observed in the structure of corporate investments: while the investments of export-oriented companies increased on an annual basis, a decline was registered for companies producing domestically and in the service sector. The arrival of EU funds and their timing will be critical, and the related uncertainty will have the greatest impact on this year's expectations. **The Magyar Nemzeti Bank (Hungarian National Bank, MNB) has forecast an increase of 0.0–1.5% increase for this year, 3.5–4.5% for 2024, and 3.0–4.0% for 2025.**[8]

In the first quarter (Q1) of 2023, economic growth in most European economies exceeded analysts' expectations, but at the same time, many countries fell into recession. Out of the 27 countries of the European Union, GDP decreased in nine member states on an annual basis. However, it is worth noting that this year the price of the main raw materials decreased, inflation moderated, trade expanded in most countries, and in addition, the favourable European labour market situation may also support economic processes.

[7]Source: KSH
[8]Source: MNB

GDP growth of regional countries on an annual basis (percentage, Q4 2021–Q1 2023)



Source: Eurostat[9]

According to Eurostat data regarding the Visegrád countries, an expansion of 1.0% was registered in Slovakia in the first quarter (Q1) of this year, while a 0.1% decrease was recorded in the Czech Republic and Poland, and a 0.9% decrease in Hungary. The economy of the Eurozone expanded by 1.2%, and overall, it can be stated that the Central and Eastern European countries finished in the middle range of the European ranking.[10]

GDP growth of regional countries (percentage, forecast)

Country	IMF		European Commission		OECD	
	2023	2024	2023	2024	2023	2024
Hungary	**0.5**	**3.2**	**0.5**	**2.8**	**0.0**	**2.5**
Euro zone	**0.8**	**1.4**	**1.1**	**1.6**	**0.9**	**1.5**
Austria	0.4	1.1	0.4	1.6	0.2	1.6
Bulgaria	1.4	3.5	1.5	2.4	1.9	3.2
Czech Republic	-0.5	2.0	0.2	2.6	0.3	2.4
Croatia	1.7	2.3	1.6	2.3	2.1	2.5
Poland	0.3	2.4	0.7	2.7	0.9	2.1
Romania	2.4	3.7	3.2	3.5	2.6	3.2
Slovakia	1.3	2.7	1.7	2.1	1.3	2.0
Slovenia	1.6	2.1	1.2	2.2	1.5	2.6

Source: IMF,[11] European Commission,[12] OECD[13]

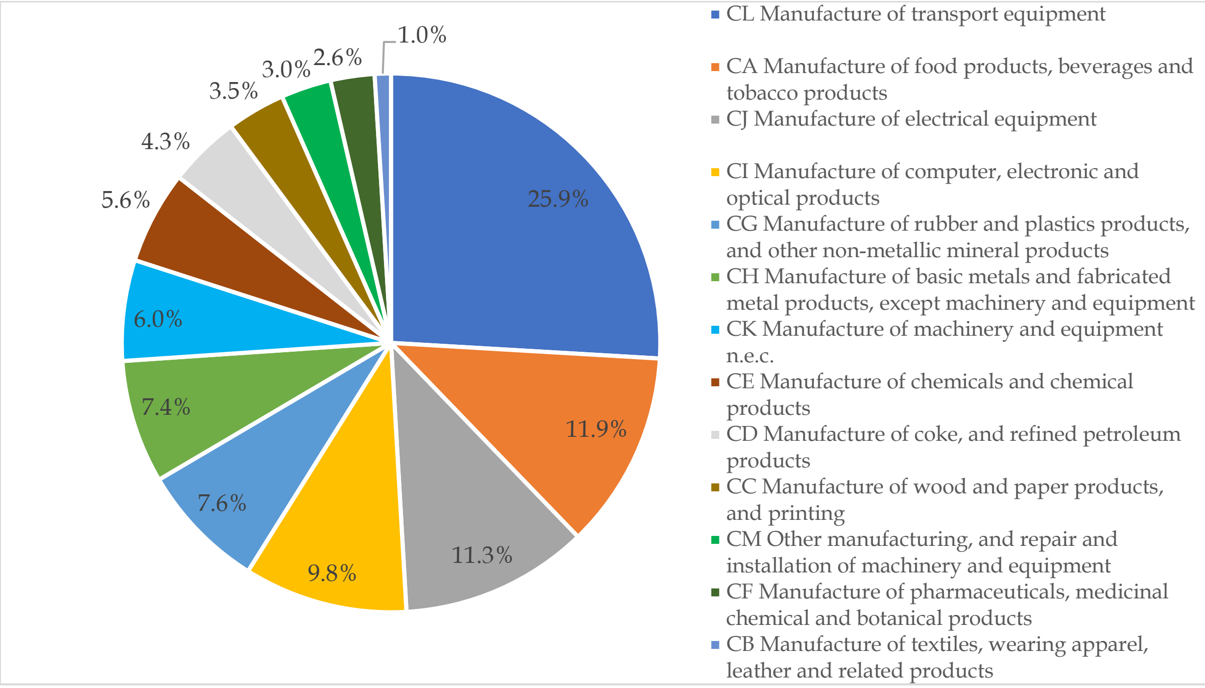
[9]Source: Eurostat
[10]Source: Eurostat
[11]Source: IMF
[12]Source: European Commission
[13]Source: OECD

According to the international organizations, in 2023, economic growth can be expected to slow down everywhere in the region; however, at the same time, the expansion of most countries in the region will exceed 2.0% in 2024. **It must be pointed out that next year the IMF, the European Commission and the OECD also expect a rapid economic recovery in Hungary after this year's more moderate growth.**

2. Manufacturing industry

In the first four months of 2023, the total production value of the manufacturing industry reached HUF 17,360.1 billion, which represents an increase of 12.6% compared to the same period of the previous year, while at the same time a decrease of 3.2% was registered based on the volume index.[14] Vehicle production accounted for 25.9%, the food industry for 11.9%, and electrical equipment production for 11.3% of the production value.[15]

Distribution of manufacturing industry production by sub-sector (January–April 2023)



Source: KSH

Examining the volume index of production, in the period January–April 2023, the highest expansion was achieved by the manufacturing of electrical equipment (+27.8%), followed by vehicle production (+15.3%), and in third place by the manufacturing of machinery and equipment (+6.6%). **However, a decrease was recorded in nine of the 13 manufacturing industry sub-sectors.** The largest decline was experienced by the manufacture of coke and refined petroleum sub-sector (-30.0%), followed by the production of chemicals and chemical products with a 24.5% decrease. The third largest decrease was recorded in the production of rubber, plastic and non-metallic mineral products (-18.1%).[16]

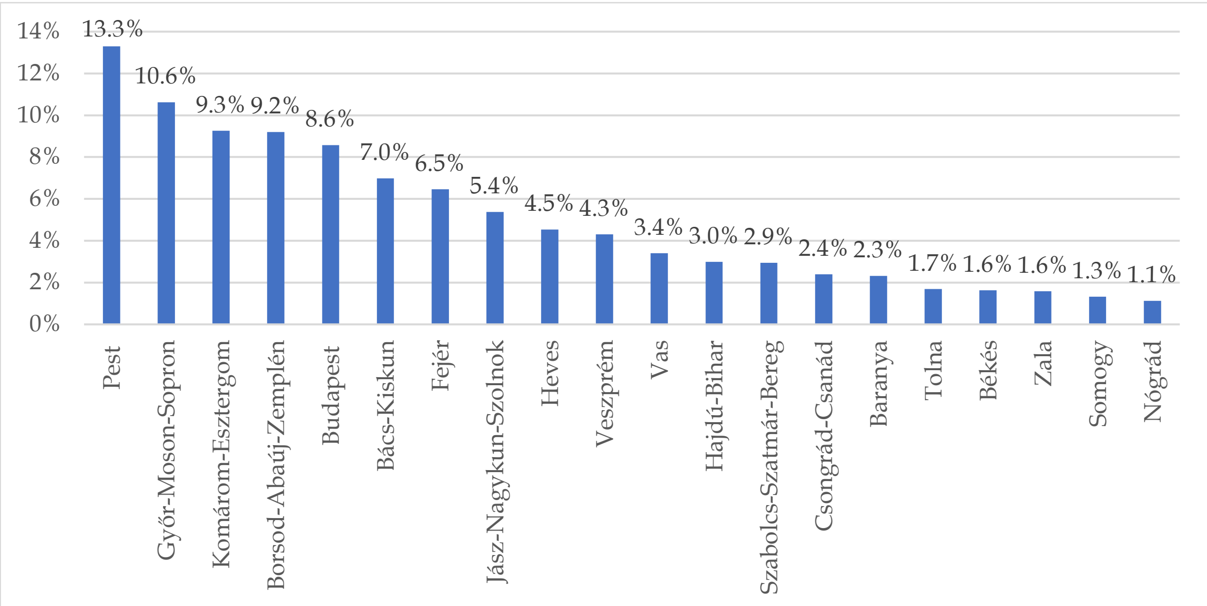
[14]Source: KSH
[15]Source: KSH
[16]Source: KSH

The subdued performance of industrial production can be traced primarily to the sudden drop in domestic sales, but it is important to note that export sales have also been showing a downward trend for several months. **The decrease in performance can be explained several factors: the significant increase in energy prices, the weak domestic demand, and the slowdown of export markets mainly contribute to the shrinkage. Individual factors such as the huge food price shock or market disruptions due to price caps might also have played a role.**

In the area of car manufacturing, the production outlook is favourable: in the recent period, supply chains have been restored, the pressure caused by the shortage of chips and semiconductors has eased, so that the accumulated shortage of orders can be continuously met. According to analysts' expectations, industrial production is expected to pick up, which, in addition to the factors listed above, can be supported by the gradual recovery of domestic demand and the expected installation of new capacities, mainly related to battery production, the automotive industry, the food industry, the chemical industry, and the defence industry.

Examining the territorial distribution of total industrial production, **based on the data for the period January–April 2023, seven counties were able to show growth**, the largest in **Komárom-Esztergom and Baranya counties by 14.7–14.7%**, in Veszprém County by 8.6%, while in Pest County **the volume of industrial production increased** by 5.7%. **In contrast, the volume of production decreased by 21.6% in Tolna County**, while industry performance dropped by 20.9% in Fejér County, and by 16.8% in Csongrád-Csanád County.[17]

Distribution of industrial production by county (January–April 2023)



Source: KSH[18]

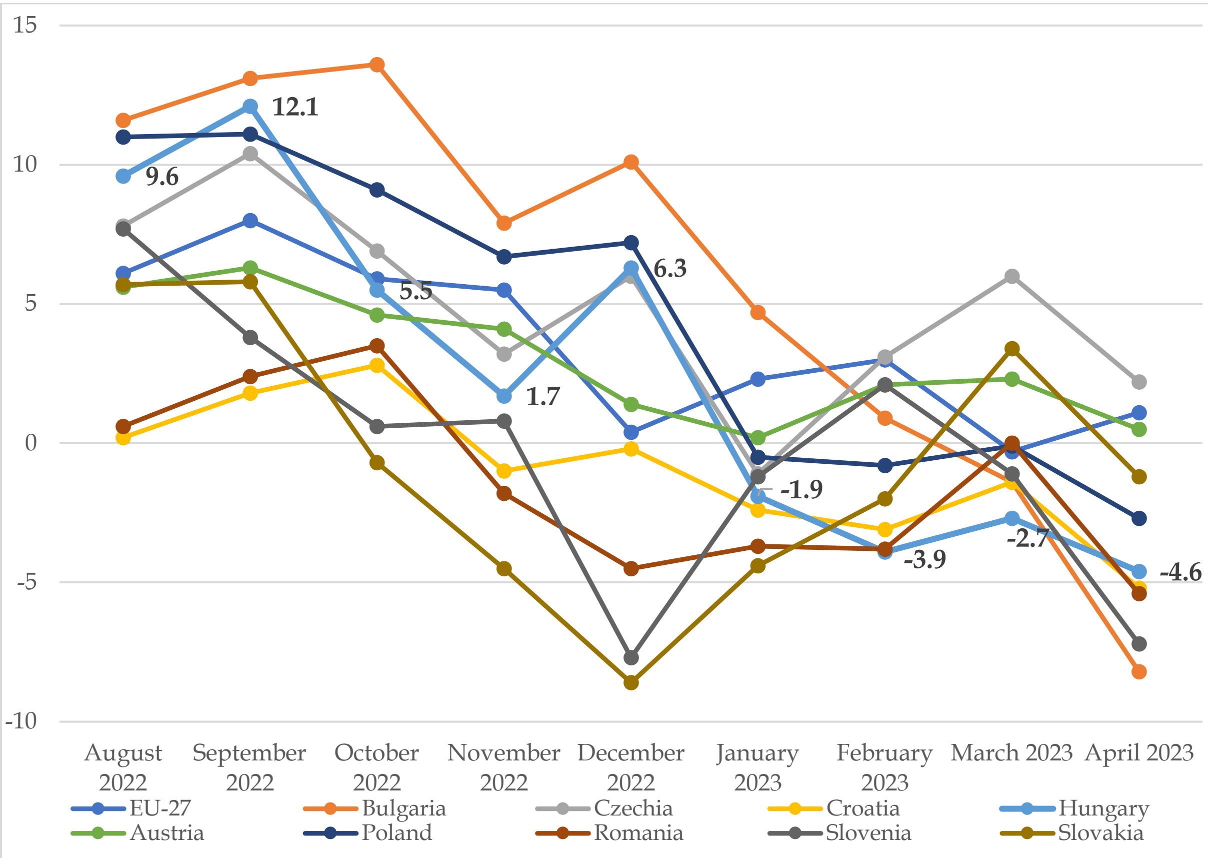
From the perspective of industrial production in Hungary, the counties of Pest, Győr-Moson-Sopron and Komárom-Esztergom can be pointed out, with the three territorial units

[17]Source: KSH
[18]Source: KSH

in total accounting for almost one third of the total industrial output in the first four months of 2023. The lowest weight was represented by the counties of Nógrád, Somogy, Zala and Békés, with shares of 1.1%, 1.3% and 1.6–1.6%, respectively.

Observing the past three quarters, it can be seen that the volume of regional manufacturing production fell from the range of 0.2–11.6% in August 2022 to the range of -8.2–2.2% by April 2023. Even if the base effects are taken into account, this can still be considered a significant decrease. **Looking at the May 2022–April 2023 period, the production volume index of Hungary's manufacturing industry is in the middle range by regional comparison, with an average monthly increase of 3.1%.** In 12 months, the Bulgarian and Polish manufacturing industries delivered an outstanding performance, with an average monthly growth of 8.3% in the former and 6.1% in the latter.

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



Source: Eurostat[19]

3. Foreign trade

From 2012 until Q2 2021, foreign trade turnover produced a surplus in each quarter, the average value of which **was EUR 1,704.6 million**. However, **in Q3 2021 a significant change occurred**, when **the balance of foreign trade turned into a deficit of EUR 974.5 million** from

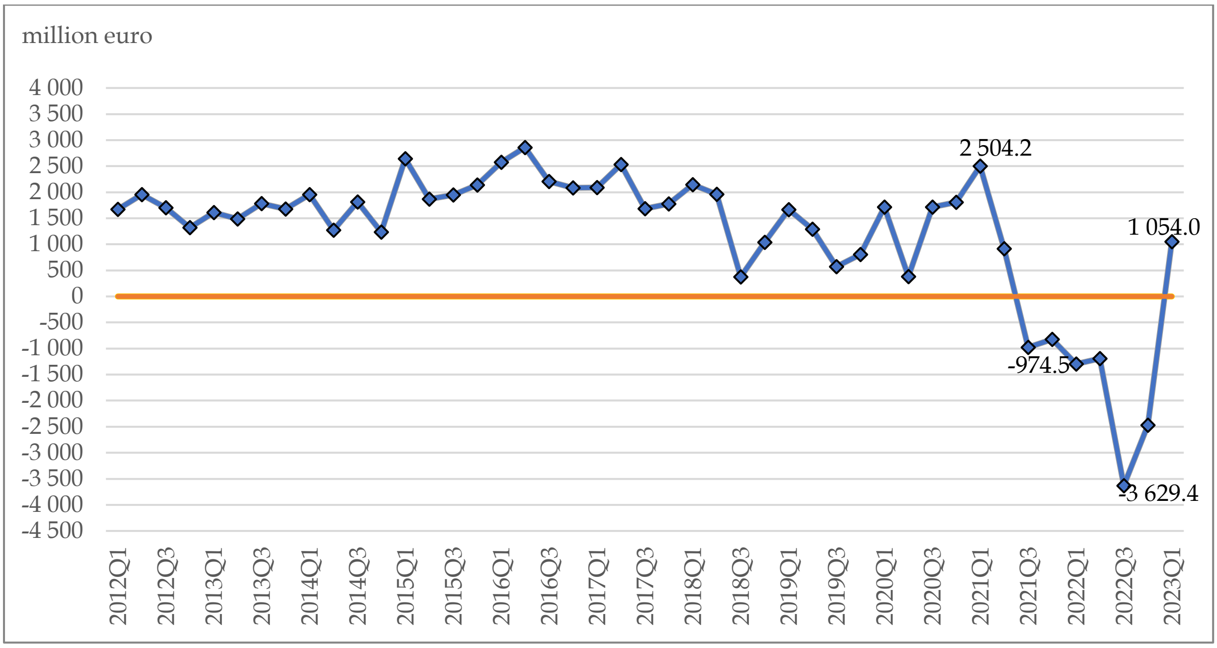
[19]Source: Eurostat

a surplus of EUR 916.1 million in the previous quarter. **Between Q3 2021 and Q4 2022** the value of product imports continuously exceeded product exports and during this period **the average quarterly value of the foreign trade deficit was EUR 1,731.6 million**.

The degree of change is clearly indicated by the fact that during the two years **between Q1 2021 and Q4 2022 product exports increased by 24.5%** (from EUR 29.7 billion to EUR 37.0 billion), **while product imports increased by 45.0%** (from EUR 27.2 billion to EUR 39.5 billion). Since the expansion of imports was almost double of exports, **the surplus of EUR 2,504.2 million in foreign trade in Q1 2021 turned into a deficit of EUR 2,473.0 million by Q4 2022.** During these two years, **the reason for the balance deterioration of EUR 5 billion was the sudden increase in the import of energy sources.**

At the same time, it is a **favourable development** that **the balance of foreign trade of goods has improved since the lowest point in Q3 2022** (deficit of EUR 3,629.4 million). The stagnation of import expansion and the simultaneous significant increase in exports resulted in the fact that i**n Q1 2023, the balance of foreign trade of goods again showed a considerable surplus** (EUR 1,054.0 million).

Development of foreign trade product balance (Q1 2012–Q1 2023, EUR million)



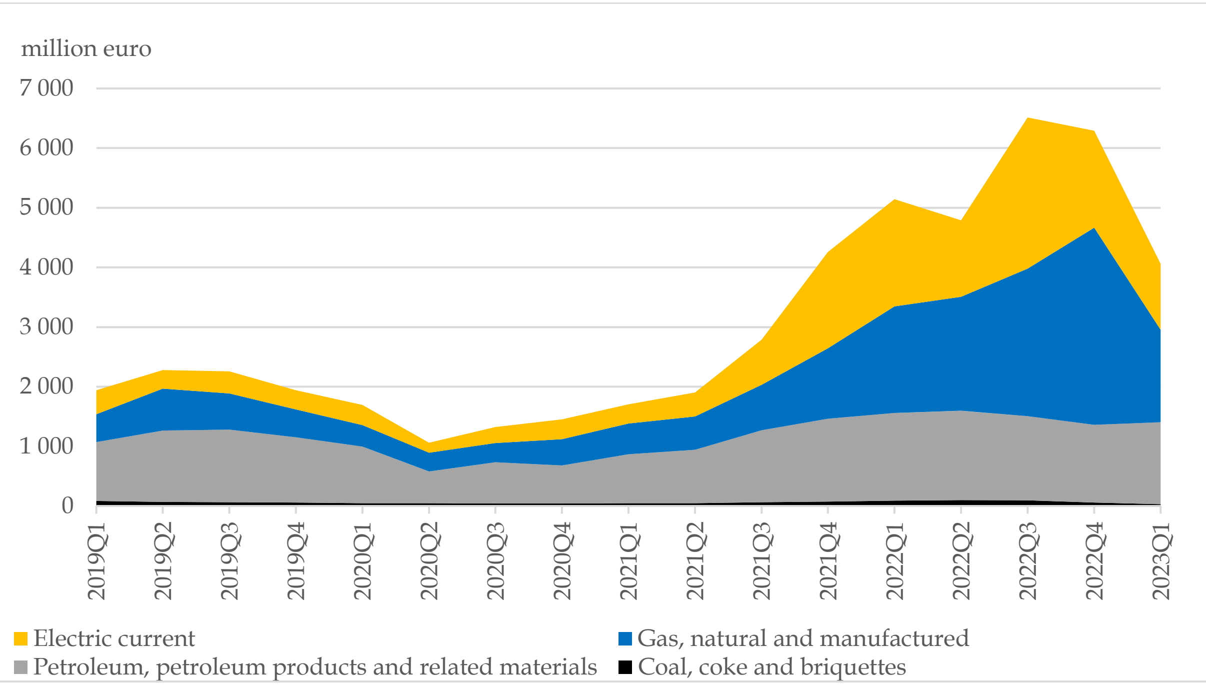
Source: KSH

The quarterly **foreign trade product balance turning into a deficit in Q3 2021 was primarily caused by the massive increase in the import of energy sources.** Between Q1 2019 and Q2 2021 the quarterly value of energy imports was only between EUR 1.0–2.3 billion, which represented 5.1–8.8% of total product imports. **From Q3 2021 onwards, the quarterly import values of energy sources and their weight within product imports also jumped spectacularly. Between Q4 2021 and Q4 2022, the quarterly import of energy sources was already between EUR 4.2 and 6.6 billion, and their weight within product imports was between 13.1% and 16.5%.**

Among the energy sources, huge increases in imports were primarily in electricity and natural gas. **Between Q4 2020 and Q4 2022, the value of electricity imports increased almost five times** (from EUR 331.9 million to EUR 1,626.6 million), **and the import of natural gas by about 7.5 times** (from EUR 442.1 million to EUR 3,304.0 million). Compared to this, in this two-year period, the import value of petroleum and petroleum products doubled (from EUR 635.6 million to EUR 1,306.5 million), and the import of coal, coke and briquettes of negligible weight increased by only 25.9% (from EUR 44.0 million to EUR 55.4). Accordingly, **the import composition of energy sources also shifted.** While **in Q4 2020, 43.7% of the import of energy sources** (EUR 1,453.5 million) **was made up of petroleum and petroleum products, 30.4% of natural gas and 22.8% of electricity**, **in Q4 2022, natural gas accounted for 52.5% of energy source imports** (EUR 6,292.6 million), **electricity for 25.8% and petroleum and petroleum products for 20.8%.**

The low point of the foreign trade product balance in Q3 2022 (deficit of EUR 3,629.4 million) **coincided with the peak of the quarterly import of energy sources** (EUR 6,514.3 million). **Between Q3 2022 and Q1 2023, the import of energy sources began to decline significantly.** During this period, **electricity imports fell by 56.3%** (from EUR 2,534.2 million to EUR 1,107.5 million), and **natural gas imports by 37.4%** (from EUR 2,472.0 million to EUR 1,548.0 million). The decrease of nearly EUR 2.5 billion in **energy imports** between Q3 2022 and Q1 2023, **significantly contributed to the fact that the balance of foreign trade of goods shows a surplus again.**

Development of energy source imports (Q1 2019–Q1 2023, EUR million)



Source: KSH

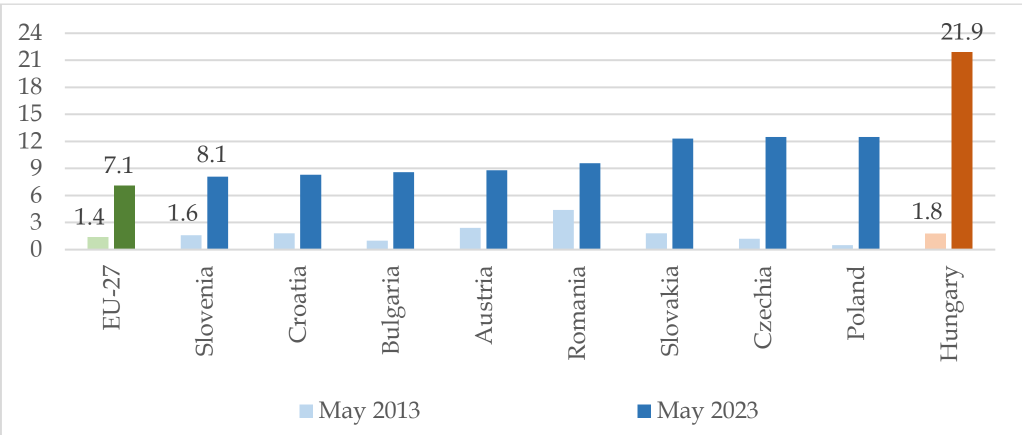
In January–April 2023, the value of Hungarian goods exports increased by 12.0% on an annual basis **to EUR 50.5 billion**, and the **value of goods imports by 4.6% to EUR 49.1**

billion.[20] **According to MNB's expectations**, the pace of import expansion will slow down as a result of **decreasing energy prices and falling domestic demand**, so **this year net exports could make a positive contribution to GDP growth.** In Q1 2023 overall, net exports dampened the decline in GDP by 4.4 percentage points. **The normalization of energy prices** that started at the end of 2022 and continued at the beginning of 2023 **was reflected in a substantial decrease in the value of energy imports. Gas prices fell from the typical level of over EUR 200 /MWh in the summer of 2022 to close to EUR 40 /MWh by March 2023**, and **the adjustment of energy consumption supported the improvement of the external balance** through the reduction of import volumes. As a result of all this, **the current account balance deficit is expected to be between 1.8–2.8% of GDP in 2023. From 2024, the external balance position may further improve to a considerable extent with the smartening external demand and the new export capacities being developed turning to production.** [21]

4. Inflation

In May 2023, **the Harmonized Index of Consumer Prices (HICP)** used by Eurostat **in the European Union was 7.1%** (8.8% a year earlier). Among the member states, **the fastest rate of average price increases was measured in Hungary** (21.9%), **Poland** (12.5%) and the **Czech Republic** (12.5%). Luxembourg (2.0%), Belgium (2.7%), Denmark (2.9%) and Spain (2.9%) had the lowest inflation rates in May. **In the EU member states of the Central European region**, the Harmonized Index of Consumer Prices was **above the EU average. The highest inflation rate in the region was measured in Hungary (21.9%), and the lowest in Slovenia (8.1%).**[22]

Evolution of the Harmonized Index of Consumer Prices (HICP) in the Central European Union member states (May 2013–May 2023, %)



Source: Eurostat

Based on **KSH** (Hungarian Central Statistical Office) data, **in May 2023 the average consumer price index was 21.5%, and core inflation**[23] **was 22.8%.** Compared to May 2022, **the price of household energy (37.2%) increased at the fastest rate**, within which the price of piped gas

[20]Source: KSH
[21]Source: MNB
[22]Source: Eurostat
[23] 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.

increased by 49.1%, while the price of electric energy increased by 27.2%. **Food prices also increased at an above average pace (33.5%).** Over the course of a year, confectionery flour products (59.6%), bread (52.7%), dairy products (51.3%), butter and butter cream (46.8%), eggs (46.1%), dry pasta (37.4%), pastries (36.6%), milk (34.9%) and cheese (33.7%) rose in price. The prices of flour (7.2%) and cooking oil (3.5%), which are also affected by the official price cap, increased the least. **In the first five months of 2023, KSH measured an average consumer price increase of 24.4% in Hungary.**[24]

After the peak of 25.7% in January 2023, the consumer price index began to decrease gradually, which is **supported by both external and domestic factors. Energy, raw material prices and transport costs have decreased significantly,** and **the slowdown in the global economy** is also easing external inflationary pressure. **In Q2 2023 the acceleration of the disinflation process is expected**, as **the price-repressing effect of the strict monetary policy, global raw material prices, the price-suppressing effect of the decline in domestic consumption, and the effect of last year's high bases** are becoming more and more pronounced. In Hungary, **inflation is expected to drop to single digits by the end of 2023.**[25]

Due to the significant uncertainty surrounding the development of consumer prices, **MNB also published a range forecast in its Inflation Report dated June 22, 2023.** The expected inflation trajectory for 2024 has shifted slightly higher due to the tax measures, therefore, the annual average inflation is expected to return to the **central bank's tolerance band** (3%±1 percentage point) at the beginning of 2025.

MNB inflation forecasts in June 2023 (2022–2025 annual average, %)

	2022 (actual)	2023	2024	2025
Inflation	14.5	16.5–18.5	3.5–5.5	2.5–3.5
Core inflation	15.7	17.7–19.6	4.6–7.0	3.0–3.5

Source: MNB

5. Labour market

Earnings

Based on KSH data, **in January–April 2023,** the **average monthly gross earnings** of full-time employees **in the corporate sector**[26] amounted to **HUF 566,400**, which shows a **17.4% increase** compared to the same period in 2022. In this field, the **median value of monthly gross earnings was HUF 427,300,** which is 18.7% higher than the base value. **In April 2023, at the level of the national economy** (calculated without fostered workers), the **average gross salary per month was HUF 578,000,** which means an annual **increase of 15.1%**. The average gross earnings were the **highest in the financial services sector** (HUF 1,057,300), and the **lowest in the accommodation and hospitality sector** (HUF 366,600). In April 2023, **real earnings fell by 6.9%** with inflation at 24.0%.[27] **Nominal wage dynamics** may be somewhat **more moderate**

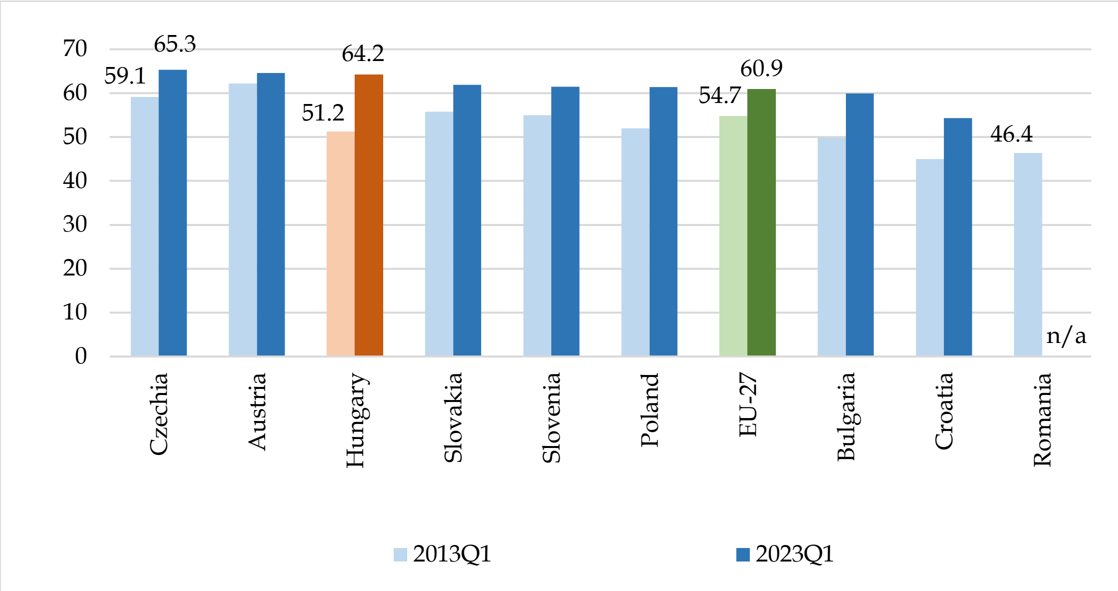
[24]Source: KSH
[25]Source: MNB
[26]Note: calculated without fostered workers, for all businesses with employees
[27]Source: KSH

than last year, but still **high**. Wage dynamics are determined by the **tightness of the labour market**, the **significant increase in the minimum wage and the guaranteed minimum wage at the beginning of the year, and inflation expectations**. According to the **MNB**'s June 2023 forecast, **gross average earnings in the competitive sector may increase by 14.7–15.5% this year and 9.1–10.1% in 2024**.[28]

Employment

Based on **Eurostat** data, the **Q1 2023 Hungarian employment rate** (64.2%) **exceeded the EU average** (60.9%) **by 3.3 percentage points**, and thus **Hungary has the third highest employment rate among Central European member states** – after Austria and the Czech Republic. **In ten years, the Hungarian employment rate rose by 13.0 percentage points**, which – after Malta – is **considered the second largest increase in the EU.**

Employment rate among the 15–74-year-old population of the Central European member states (Q1 2013–Q1 2023, %)



Source: Eurostat

For more than 12 years, the guiding thread of employment policy in Hungary has been that the Government undertook to create one million new jobs in 2010 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 2023, nearly 4.7 million people** (4,695.8 thousand people) **were registered as employed, and the employment rate reached 64.2%.** Compared to the Q1 2022, **the number of employed people increased by 21.5 thousand, and the employment rate rose from 63.7% to 64.2%.** In January–March 2023, the **employment rate was the highest in Budapest** (70.4%) **and Győr-Moson-Sopron County** (69.2%), apart from this only **Pest** (67.3%), **Komárom-Esztergom** (66.9%) and **Fejér County** (66.3%) **exceeded the**

[28]Source: MNB

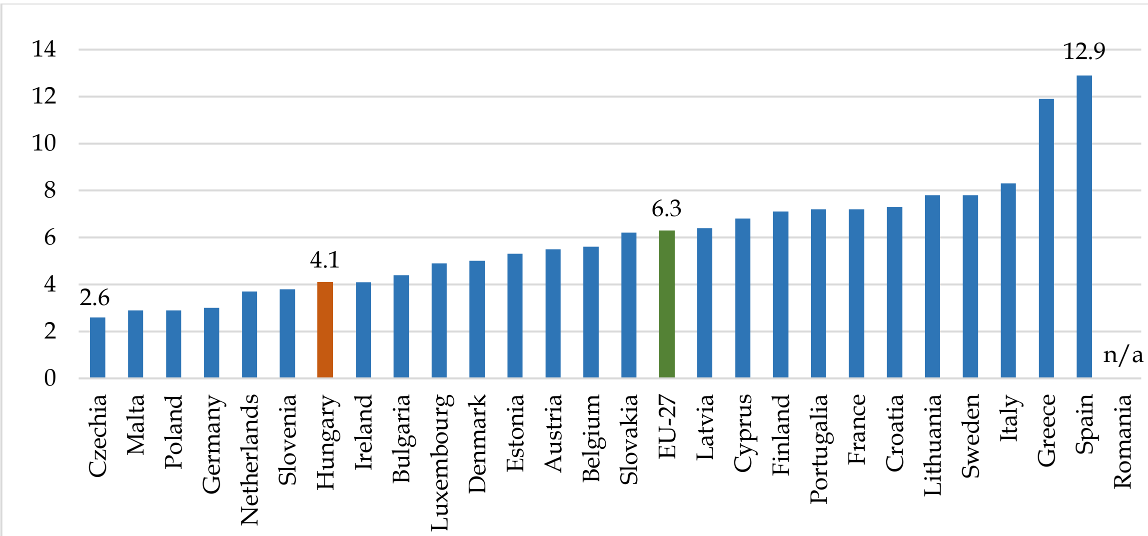
national average. In the country, the **employment rate was the lowest in the counties of Somogy** (56.0%), **Nógrád** (58.6%), **Békés** (58.6%) and **Tolna** (58.7%).

In March–May 2023, of the 4,703.7 thousand employed persons, 4,533.9 thousand worked in the domestic primary labour market, 100.8 thousand persons worked in foreign locations, and 69.0 thousand persons were employed as fostered worker. While t**he number of people working in the domestic primary labour market increased by 14.3 thousand people**, and **the number of people working abroad by 5.1 thousand**, **the number of fostered workers decreased by 9.0 thousand** compared to the same period of the previous year.[29] According to the June forecast of the **central bank**, **labour demand will remain strong**, therefore despite the slowdown in GDP growth, **the number of employees in the competitive sector may increase by 0.4–0.7% in 2023.** At the same time, employment can be expected to develop differently by sector and by company staffing category. **In 2024, employment in the competitive sector may increase slightly, by 0.2–0.7%.** [30]

Unemployment

Based on **Eurostat** data, **Hungary's unemployment rate of 4.1% in Q1 2023** was the **seventh lowest in the EU**, tied with Ireland. Hungarian **unemployment was less than two-thirds of the EU average** (6.3%) and – after the Czech Republic, Poland and Slovenia – it **was considered the fourth lowest among the Central European EU member states.** In Hungary, **unemployment decreased from 11.2% to almost a third in ten years.**

Unemployment rate among the population aged 15–74 in the EU member states (Q1 2023, %)



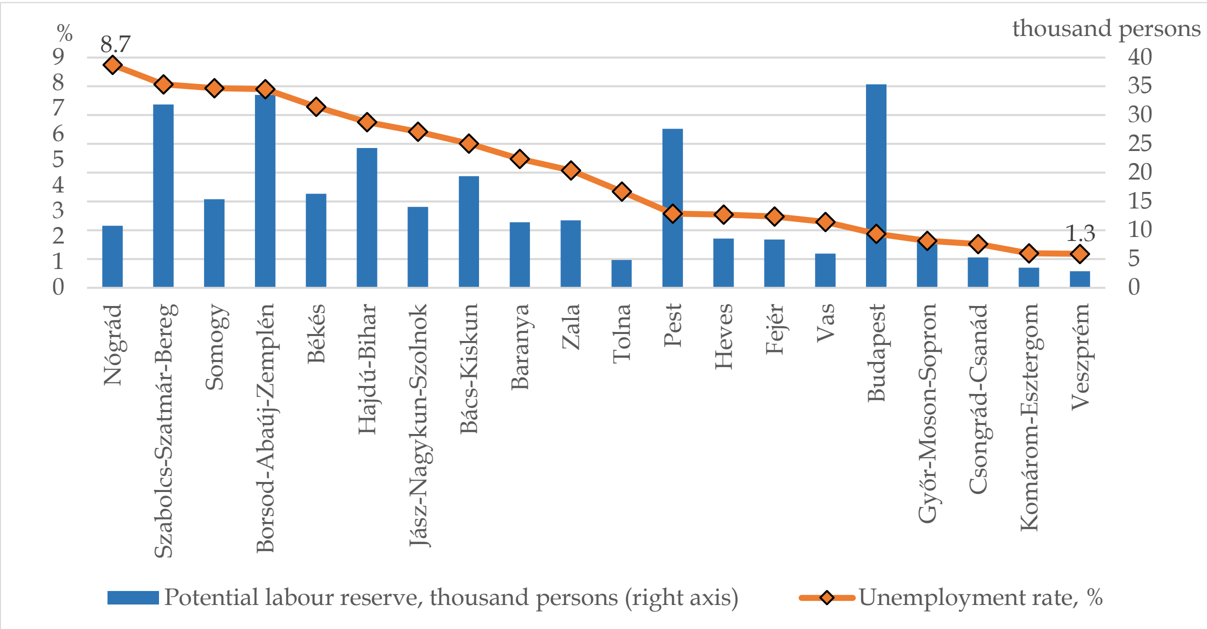
Source: Eurostat

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 people), and the unemployment rate was 11.4%. **In January–March 2023, the number of unemployed people was 198.8**

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

thousand, and **the unemployment rate was 4.1%.** Compared to Q1 2022, **the number of unemployed people increased by about 17.8 thousand people**, and **the unemployment rate increased from 3.7% to 4.1%. Significant geographical differences can be observed** with regard to the unemployment rate. **In Q1 2023, the unemployment rate was the lowest in the counties of Veszprém and Komárom-Esztergom** (1.3–1.3%), and **the highest** (8.7%) **in Nógrád County**. **The unemployment rate was higher than the national average in the counties of the Northern Great Plain region**, as well as in the counties of **Nógrád, Somogy, Borsod-Abaúj-Zemplén, Békés, Bács-Kiskun, Baranya and Zala. More than half of the country's potential labour force reserve** (299.2 thousand people) **is in the Great Plain and Northern Hungary** (164.0 thousand people, 54.8%), **nearly a quarter in Transdanubia** (72.2 thousand people, 24.1%), and **a fifth is located in the capital and Pest County** (63.0 thousand people, 21.1%). **Budapest** (35.3 thousand people), **Borsod-Abaúj-Zemplén** (33.5 thousand people), **Szabolcs-Szatmár-Bereg** (31.8 thousand people), **Pest** (27.7 thousand people), **Hajdú-Bihar** (24.3 thousand people) and **Bács-Kiskun County** (19.4 thousand people) **have the largest potential labour force reserve** in relation to the 19 counties and the capital.

Hungary's unemployment rate and potential labour force reserve among the population aged 15–74 broken down by county (Q1 2023, % and thousand people)



Source: KSH

In March–May 2023, the number of unemployed people aged 15–74 increased by 26.8 thousand to 191.5 thousand compared to the same period of the previous year. In line with this, the **unemployment rate increased by 0.5 percentage points to 3.9%** in one year.[31] **Based on the data of the National Employment Service** (NFSZ) **224,169 jobseekers were registered in June 2023**, which means a **decrease of 6,140 people** (2.7%) **compared to the same period of the previous year.** Registered jobseekers accounted for 3.6% of the working-age population.[32]

[31]Source: KSH
[32]Source: NFSZ (National Employment Service)

According to the **MNB**'s June forecast, **the unemployment rate will decrease slightly in the rest of the year** in line with the recovery of the economy, and unemployment may return to pre-coronavirus levels by 2024. Based on the **central bank's forecast**, the **unemployment rate may reach 3.6–3.7% in 2023 and 3.1–3.6% in 2024.**[33]

6. Foreign Direct Investments (FDI) [34]

Global FDI flows decreased by more than 12% in 2022, reaching approximately USD 1,300 billion. The decline can be explained by a number of crises affecting the world economy, including the war in Ukraine, high food and energy prices, and the growing debt burden affecting many countries.

Transactions involving international project financing and cross-border mergers and acquisitions were particularly exposed to tightening financing conditions, rising interest rates and capital market uncertainty.

The decline in global FDI flows in 2022 in developed economies was mostly caused by financial transactions of multinational companies. In this group of countries, the FDI inflow decreased by almost 37%, to USD 378 billion. **The decline can mainly be traced back to the European Union.**

The value of FDI flowing into developing countries increased by 4% to USD 916 billion, so investments in developing countries accounted for more than 70% of the global FDI inflow, which is a record ratio. The value of investments flowing into Latin America and the Caribbean increased by nearly 51%, reaching USD 208 billion, the highest value ever recorded.

Development of foreign direct investments (FDI) between 2020 and 2022 (billion USD)

Region	2020	2021	2022	Change (2022/2021)	Change (2022/2021, %)
World	**962**	**1,478**	**1,295**	**-183**	**-12.4%**
Developed economies	**315**	**597**	**378**	**-219**	**-36.7%**
Europe	133	51	-107	-158	
European Union	***116***	***152***	***-125***	***-277***	
North America	123	453	338	-115	-25.4%
Developing economies	**647**	**881**	**916**	**35**	**4.0%**
Africa	39	80	45	-35	-43.8%
Asia	516	662	662	0	0.0%
East Asia	285	334	324	-10	-3.0%
Southeast Asia	119	213	223	10	4.7%
South Asia	71	53	57	4	7.5%
Western Asia	35	56	48	-8	-14.3%
Latin America and the Caribbean	***90***	***138***	***208***	***70***	***50.7%***

The data on greenfield investments show a more positive picture compared to the overall FDI figures, the number of relevant announcements increased by 15% in 2022. The United

[33]Source: MNB
[34]Source: UNCTAD

States (2,075 projects), the United Kingdom (1,230), India (1,008), the United Arab Emirates (997) and Germany (984) have the most reported greenfield investments. It should be also noted that **the number of greenfield investments reported in developing countries increased by 37%.**

In terms of industry trends, it should be highlighted that the number of projects has increased in the field of infrastructure and in relation to those sectors that are experiencing increasing pressure in connection with the restructuring of supply chains, including the electronics sector, vehicle manufacturing, and the machinery industry. **In response to the global semiconductor shortage, three of the five largest greenfield investments affect semiconductor manufacturing.**

As in 2021, the United States of America was the number one destination for FDI flows last year as well. China also retained the second position. In the ranking, the first EU country (Sweden) is only in 9th place.

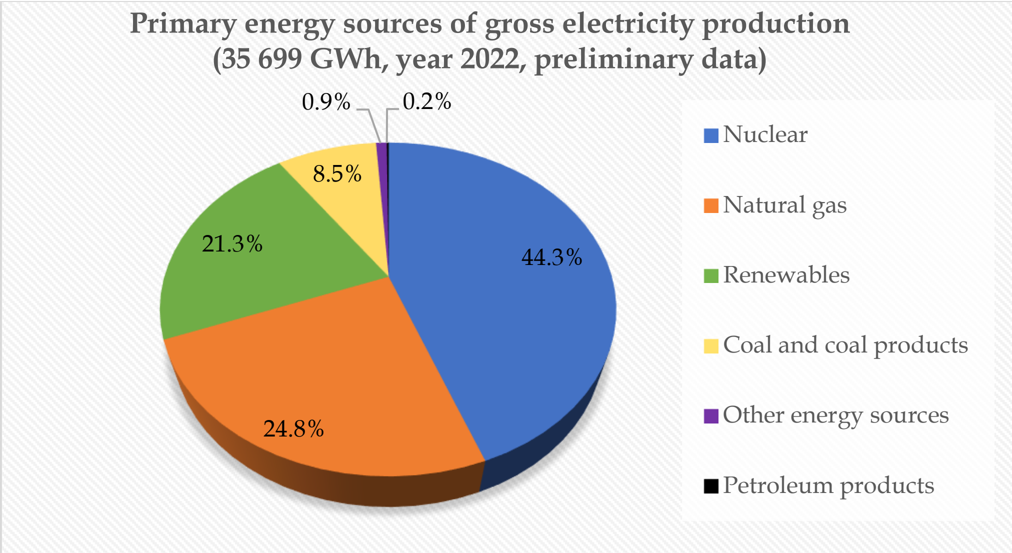
The twenty most important destination countries for inflowing foreign direct investments (FDI) in 2022

Ranking	Country	Billion USD
1	United States of America	285
2	China	189
3	Singapore	141
4	Hong Kong, China	118
5	Brazil	86
6	Australia	62
7	Canada	53
8	India	49
9	Sweden	46
10	France	36
11	Mexico	35
12	Spain	35
13	Japan	33
14	Poland	29
15	Israel	28
16	United Arab Emirates	23
17	Indonesia	22
18	Italy	20
19	Chile	20
20	South Korea	18

According to UNCTAD's findings, the international economic environment is still full of challenges in 2023. Even though the negative impacts shaping investment trends have subsided somewhat, they have not completely disappeared. Geopolitical tensions remain high. Disturbances in the financial sector increased investor uncertainty. **Based on UNCTAD's expectations, the decline in global FDI flows will continue in 2023.**

7. Electricity production[35]

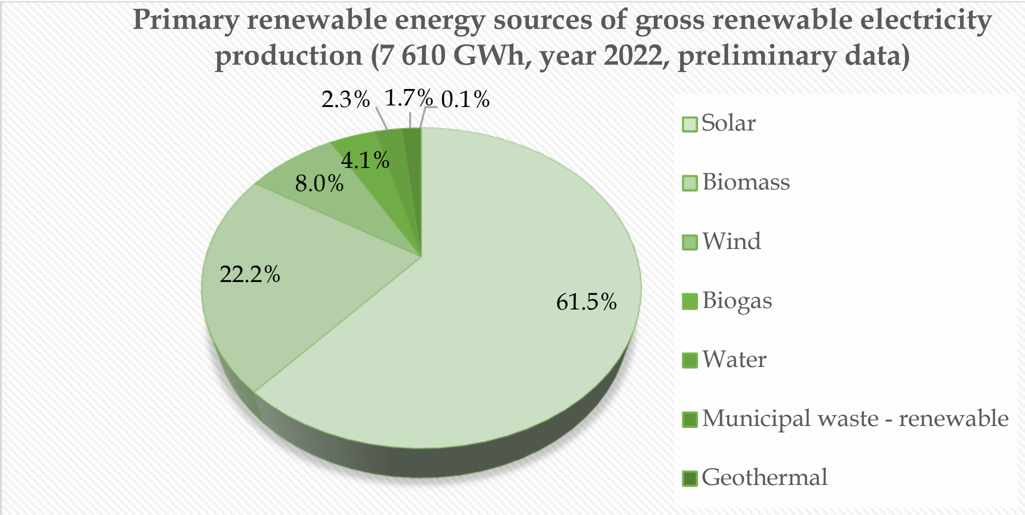
Based on the preliminary data of the Hungarian Energy and Public Utility Regulatory Authority (MEKH) **for 2022**, **gross electricity production was 35,699 GWh**, which is 1.2% lower than the value of 2021 (36,120 GWh). **Total domestic electricity consumption was 47,850 GWh**, which shows a 2.1% drop compared to the previous year's value. The **share of net imports within all uses was 25.4%**, which is a decrease of 0.7 percentage points compared to the figures of 2021. **Nearly two-thirds (65.6%) of gross domestic electricity production came from carbon-neutral sources, while about one-third (33.5%) came from fossil energy sources. 44.3%** of electricity production **came from nuclear, 24.8% from natural gas, 21.3% from renewable sources**, and the **share of coal and coal products was 8.5%**.



Source: MEKH (Hungarian Energy and Public Utility Regulatory Authority)

Based on the preliminary data of MEKH, **compared to 2021, electricity production from renewable sources increased by 10.1% (to 7,610 GWh),** while **the amount of electricity produced from natural gas fell by 8.4% (to 8,845 GWh).** The amount of electricity produced from coal and coal products decreased by 1.9% (to 3,046 GWh), and nuclear-based energy production decreased by 1.1% (to 15,812 GWh). **61.5% (4,682 GWh) of electricity generation from renewable energy came from solar energy, of which small household-sized power plants provided more than a third (33.7%). Biomass** is also a significant source of energy, with a **weight of 22.2% (1,693 GWh) within renewable electricity production.** The **share of wind energy and biogas** in domestic electricity production from renewable sources **is still moderate**, which according to preliminary data for 2022 was **8.0% (610 GWh) and 4.1% (313 GWh) respectively.** Although the role of geothermal energy and municipal waste in electricity production is marginal, at the same time almost half of domestic heat energy production from renewable sources comes from these two sources.

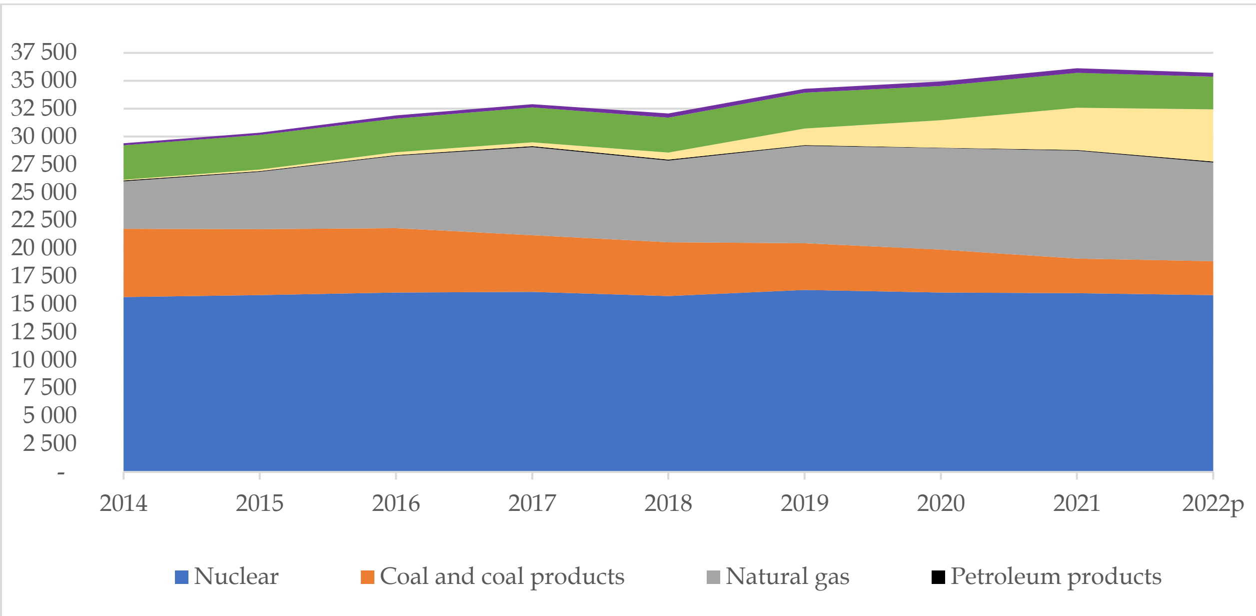
[35]Source: MEKH



Source: MEKH

Between 2014–2022, domestic gross electricity production increased by a total of **21.4%**. The increase of 6,296 GWh in the overall electricity production has been on one hand the result of the spectacular rise of solar energy production since 2017–2018. **Solar energy-based electricity production increased by 4,615 GWh between 2014–2022.** On the other hand, **between 2014–2022, natural gas-based electricity production also increased by 108.6%, almost to the same extent as solar energy production** (by 4,605 GWh). In contrast, **electricity production based on coal and coal products fell by about half during this time** (from 6,114 GWh to 3,046 GWh). Due to the Paks I nuclear power plant, **nuclear-based electricity production essentially stagnated** (1.0% increase), however, **between 2014–2022, its share in the total domestic electricity production gradually decreased from 53.2% to 44.3%.** Electricity production from renewable sources other than solar energy fell by 5.1% (from 3,084 GWh to 2,929 GWh).

Change in gross electricity production by energy source (2014–2022, GWh)



Source: MEKH