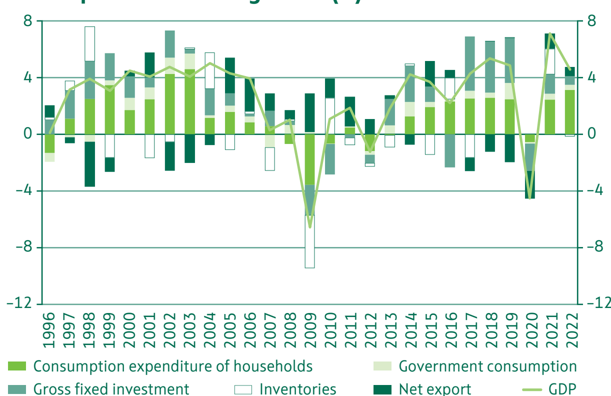
# Macroeconomic and financial environment in 2022

The rapid recovery following the Covid crisis has created capacity bottlenecks in many sectors, which, together with rising commodity and energy prices, have led to a significant increase in inflation in advanced economies. The last time the US experienced inflation on this scale was in the 1970s. With inflation rising rapidly and becoming broad-based, the US Fed was the first of the major central banks to step in and start raising interest rates. This significantly strengthened the dollar, and US 10-year yields rose to 4.3%. Overseas inflation clearly peaked in mid-2022 and has been on a downward trend since then. Inflation also rose rapidly in Europe, but here it was more a problem of dramatically rising gas and electricity prices. However, inflation also peaked in the currency area by the end of 2022 and has been on a downward trend since October 2022. With the Russian-Ukrainian conflict having a much stronger impact on the European economic outlook and the labour market being much less tight than overseas, the ECB has been slower to react to rising inflation. Despite this, the European short-term interest rate also rose to 2% by the end of 2022.

The US went into a technical recession in the first half of 2022, but this proved to be temporary and the US economy resumed growth in the second half of the year. European economies proved more resilient than expected to the effects of the Russia-Ukraine war. In the first half of the year, growth was helped by sectors recovering from Covid, but the currency area also avoided recession in the second half of the year and grew by 3.5% for the year as a whole.

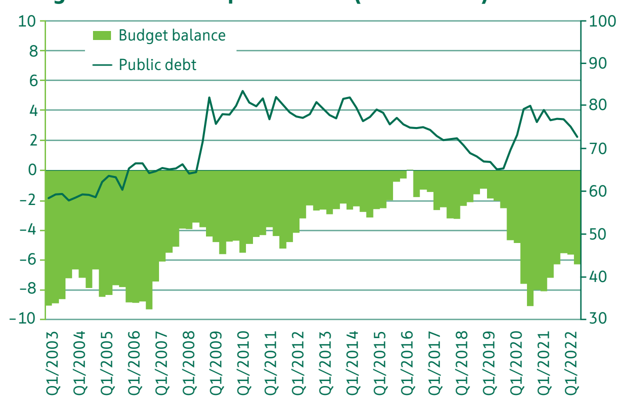
The main factor that shaped the Hungarian economy in 2022 was the armed conflict in our neighbouring country. Although the first half of the year still saw strong economic growth – the Hungarian economy grew by 8.2% year-on-year in the first quarter and 6.5% in the second – this was largely due to the large one-off transfers at the beginning of the year. By the second half of 2022, however, the Hungarian economy had lost significant momentum and by the end of the year, the country entered a technical recession – two consecutive quarters of declining economic performance compared to the previous quarter. As a result, the Hungarian economy managed to grow by 4.6% in 2022 as a whole. Inflation, which rose to over 20% by the end of the year, played a significant role in the downturn, significantly eroding and turning real income growth negative by the end of the year.

**Decomposition of GDP growth (%)**




Sources: KSH, OTP Research

**Budget balance and public debt (as % of GDP)**

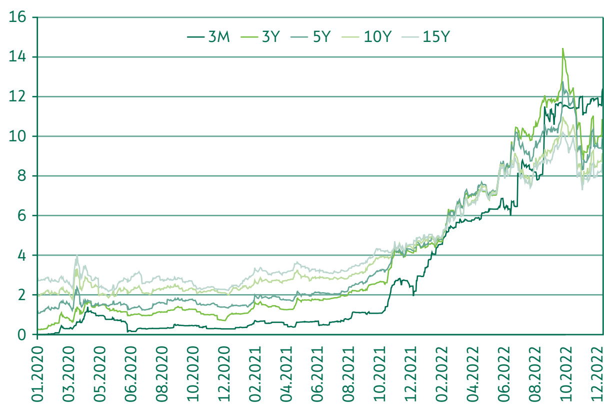



Source: KSH, OTP Research

Strong domestic demand at the beginning of the year allowed businesses to incorporate the ongoing cost shocks into their prices, and from the second half of the year, several regulatory measures – tightening of KATA tax rules, special taxes, NETA tax increases, reducing eligibility for subsidized utility bills, etc. – also boosted domestic inflation. As a consequence, domestic inflation has also become disconnected from euro area and regional developments. Inflation peaked around 10% in the former and around 15–17% in the CEE region, while Hungary did not see inflation peak until the end of 2022.

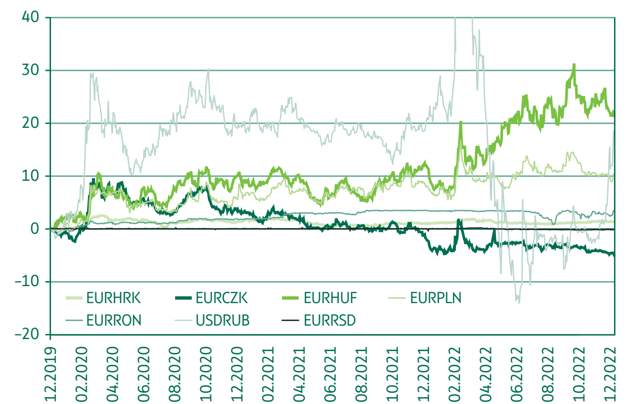
As Hungary is a major net energy importer, the sharp rise in energy prices has significantly worsened the external balance of the Hungarian economy, putting downward pressure on the forint. In addition, the continued delay in agreeing on EU funds has increased the risk premium on forint assets, also contributing to the weakening of the forint, which the central bank managed to reverse only by drastically raising interest rates when the EUR/HUF traded around 435. This has increased the effective policy rate to 18%. Falling gas prices and the EU agreement at the end of the year have already had a positive impact on the exchange rate.

**Hungarian yield curve (%)**




Source: MNB, AKK, OTP Research

**Regional exchange rates** (31.12.2019=0)




Source: Reuters, OTP Research

And falling real incomes and high interest rates have slowed credit market growth significantly. The sharpest slowdown was seen in the housing loan market, where, by the end of the year, after the Green Home Programme subsidized loan scheme exhausted, the contracted amount had fallen to half of the level seen in 2021. Demand for consumer loans – personal loans and home equity loans – was more stable, with a much smaller decline in contracted amounts. Demand for corporate loans continued to develop favourably, as the stock was able to grow by almost 14% on an exchange rate adjusted basis.

Despite rapidly eroding real incomes, household consumption remained relatively buoyant. However, this has come at the cost of a sharp decline in the ability to save. Outflows from demand deposits have been particularly strong, with amounts being shifted into foreign currency deposits and investment fund shares.