

Macroeconomic and financial environment in 2024

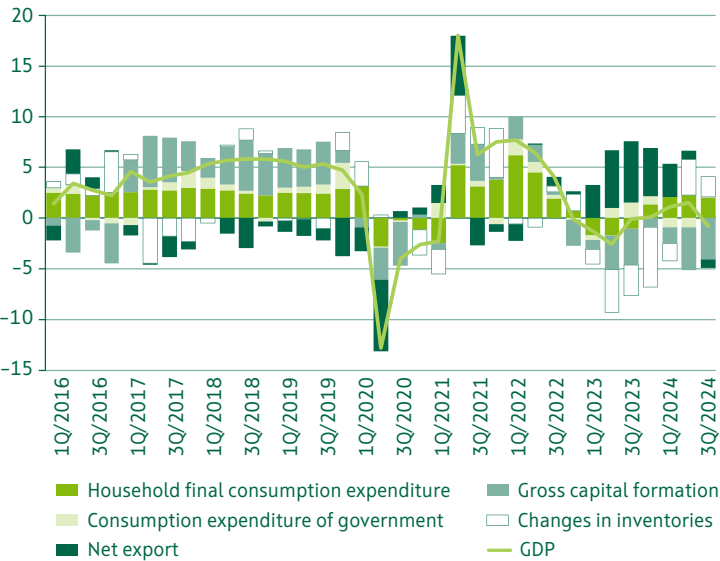
In 2024, inflation in advanced economies continued to fall, so the Fed and the ECB both started their interest rate cut cycles. The US presidential election and the expectations ahead of it led to a sharp turnaround in bond markets and interest rate expectations, as the victory of Donald Trump, whose election promises included several highly inflationary elements, became increasingly likely. In mid-September, yields started to rise after a slide since spring, and expectations of further rate cuts began to ease. Growth remained strong in the United States, but the euro area continued to struggle to recover from the crisis, where the energy crisis and the inflation shock of the Russia-Ukraine war had thrown it. Meanwhile, labour markets remained tight on both sides of the Atlantic, with low unemployment and strong wage dynamics.

As the year was nearing its end, it became clear that growth in the US was strong, as consumer spending and private investment

continued to drive the growth, and the US economy expanded by 2.8%, well above the 1-1.5% expected at the beginning of the year. Labour market conditions were also more favourable than expected: except for some minor temporary volatility, employment growth remained strong, unemployment remained low, and wages grew by 4%. Disinflation stalled in the autumn, and core inflation was still 3-3.5%, well above the inflation target. Nevertheless, the Fed cut its base rate by 100 bps to 4.25-4.5% by the end of the year, in line with expectations.

In the euro area, the recovery was also driven by consumption, but the pace of the rebound was far below that of the USA and was not homogeneous across the euro area. The best performers were tourism-driven southern member states, while the industry-heavy economies struggled to recover from the shock of the energy crisis. Political crises are also weighing on the recovery, with two major

GDP breakdown, expenditure approach (%)

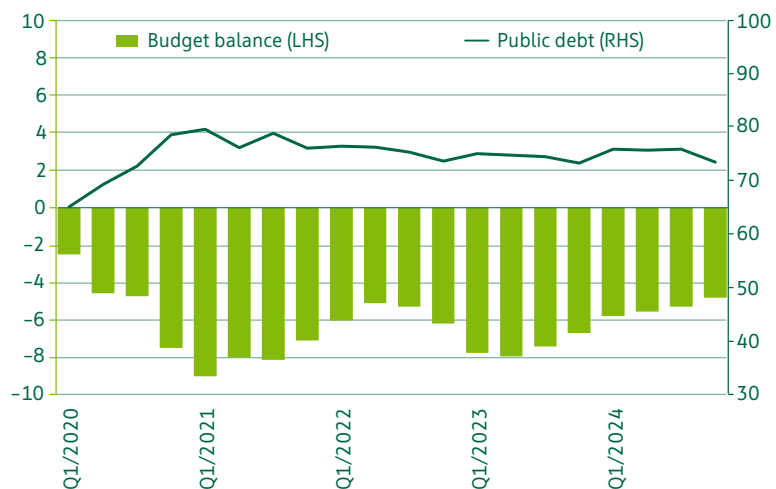


Sources: HCSO, OTP Research

economies, Germany and France, both facing government crises. Inflation temporarily fell below target in the autumn, but has been accelerating again since October as the food and energy price fall fades; still, the ECB continued its interest rate cut cycle, bringing the effective rate down to 3% by the end of 2024, in a 100 basis point cut for the year overall. The Hungarian economy started to recover in 2024 after a longer and deeper recession than other countries in the region in 2023 but, just like in Europe, it was uneven and fragile, growing by just 0.5% in full year 2024, compared with expectations of around 3% at the start of the year. With rising real wages and low unemployment, consumption

gradually picked up, although households' precautionary savings remained high. Despite expanding consumption, the high exposure to the automotive sector, the eroded room for manoeuvre in fiscal policy, the falling exports and a more than 10% drop in investment pushed the economy back into technical recession in the second and third quarters, from which it recovered only in the fourth quarter. Net exports' contribution to growth was positive, but it did not stem from exports' robust performance – it was only because imports fell sharper than exports did. Labour market tensions have clearly eased, as employment declined in the second half of the year, but the unemployment rate did not rise significantly.

Budget deficit and public debt (as % of GDP)

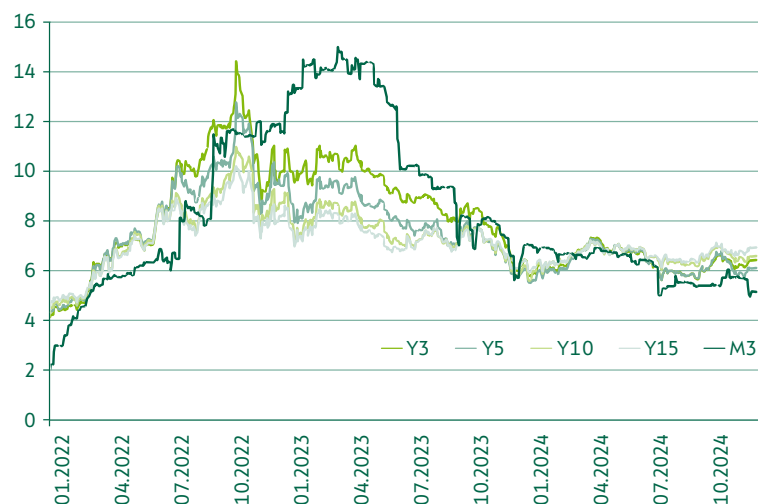


Sources: HCSO, Eurostat, OTP Research

Inflation also slowed in Hungary and reached the 3% target in September, giving the MNB room to cut interest rates from 10.75% at the end of 2023 to 6.5%. But inflation picked up in October and the escalation of the Middle East conflict and the rise in US yields forced the MNB to pause the easing cycle. The EUR/HUF was at around 380 at the beginning of 2024, but it rose persistently above the 400 level in the second half of the year. After years of deficits of 7-8%, the primary balance improved to close to zero in 2024, despite the unfavourable macroeconomic

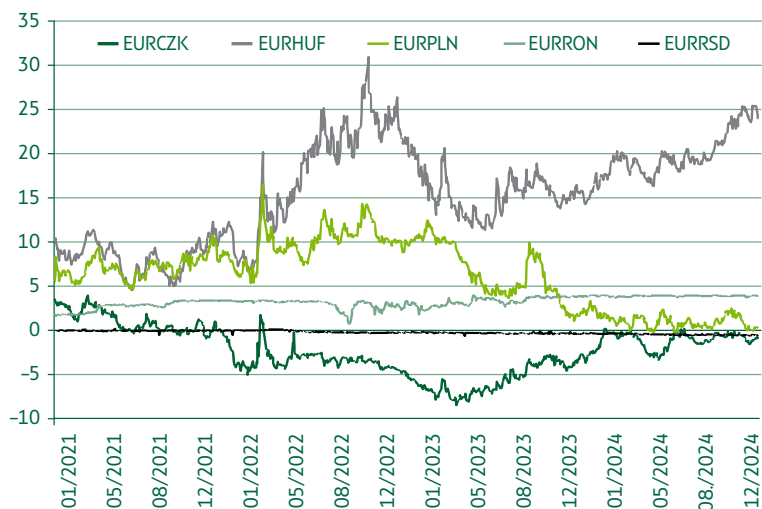
environment, and the headline deficit fell to 4.8% of GDP, close to the increased deficit target, but still far from the 3% Maastricht criterion. The decline in government debt stalled in 2024, with the debt-to-GDP ratio rising to 73.9%-74% from 73.4% in 2023. Hungary's external balance started to improve rapidly after the energy price shock faded and domestic demand declined; the deficit swung from above 8% of GDP in 2022 to a slight surplus in 2023, by rising to 2.5% of GDP in 2024, and external debt started to slowly decline.

Hungary's yield curve (%)



Sources: ÁKK (Government Debt Management Agency), OTP Research

CEE currencies' exchange rates (31.12.2019=0)



Sources: Refinitiv, OTP Research

As a result of the government's stimulus measures, the housing market picked up along with household loan demand, while the corporate loan market stagnated. In 2024 the

total household loan stock increased by 9.7% (2023: 2.7%), of which mortgage loans grew by 13% (2023: 1.3%) and corporate loans by 1.6% (2023: 5.9%) after excluding the FX-effect.

