Hungary

In 2021, compared to a moderate year-on-year decline in the first quarter, GDP growth in the second quarter accelerated fast, while in the third and fourth quarters it was significant, bringing total GDP growth in 2021 to 7.1%, four percent above the pre-pandemic level. Almost all sectors have contributed to growth, albeit at varying degrees over the different quarters. Annual growth in industrial production slowed from a higher base a year ago. The construction sector delivered an outstanding performance, contributing significantly to growth. Retail sales continued to grow, with annual growth accelerating slightly. Hospitality and tourism, while not yet fully recovered, showed particularly strong growth at the end of the year, due to the low base of a year earlier. the performance of transport services also accelerated. Finance, insurance, information and communication, real estate services, technical, scientific, professional and administrative services, and leisure services also showed substantial growth. As for consumption, there has been a rebound, partly due to base effects and partly to the pension premium, while investment continued to deliver a strong performance, reflecting the robust achievement of the construction sector. The external trade balance was less of a drag on growth, with a smaller deterioration in the trading of goods and a significant improvement in the balance of services, driven by the recovery in tourism.

Following a steady decline over the year, the rate of unemployment fell to 3.7% by the fourth quarter from 4.1% a year earlier. The rate of unemployment averaged at 4% in 2021.

The annual rate of inflation rose from 2.7% in January to 7.4% in December. The rise in inflation was mainly driven by higher fuel prices and the increase in excise duties on tobacco products, but, especially towards the end of the period, the inflationary effects of the surge in demand and slower adjustment of supply, as well as the broad and steep increase in commodity prices, were also starting to emerge. Core inflation and tax-adjusted core inflation rose to 6.4% from above 3% in January, reflecting intensifying and widening inflationary pressures. In 2021, inflation averaged 5.1%, core inflation 3.9% and tax-adjusted core inflation also 3.9%.

In order to prevent secondary effects, caused by a material increase in inflationary risks, the Hungarian Central Bank launched an interest rate hike cycle. It raised the base rate from 0.6% in January to 2.4% in December, and also raised the overnight deposit rate to 2.4% and the overnight and one-week secured loan rates to 4.4%. In addition, in December it phased out the government bond purchase programme, the Bonds for Growth Programme and the swap tenders providing HUF liquidity.

The impact of measures to combat the pandemic and the economic crisis, combined with the grants aimed at stimulating investment, resulted in a deficit amounted to 7.1% of GDP in the central budget in 2021. The sovereign debt ratio reduced to 78.2% in 2021 from 80% in 2020.

At the end of 2021, the Hungarian banking sector consisted of 40 institutions. Among them are 21 commercial banks, 11 specialised credit institutions (mortgage banks, building societies, development and trade finance banks) and eight foreign bank branches. The number of branches and employees in the banking sector practically did not change in 2021 i.e. there were 1,851 branches and approximately 40 thousand employees in it. For the country's population of 9.8 million in 2021, there were more than 10,6 million bank accounts, almost 9.9 million payment cards (out of which 9.1 million were contactless), 4,919 ATMs, 252,616 POS physical terminals plus almost 35,000 virtual ones.

At the end of 2021 over 61% of the Hungarian banking sector is under local control. In commercial banking sector (excluding development bank and EXIM bank), the state had majority only in one upper mid-size bank temporarily, otherwise the state had negligible ownership in the sector.

The value of the banking sector's total balance sheet increased by 15.86% compared to the previous year. The capital position of the Hungarian banking sector was improving in 2021. The CET 1 capital adequacy ratio (CAR) almost reached 19%, while the total CAR was at 21%.In 2021, profits of the Hungarian institutions more than doubled as compared to 2020 and was 6,7% higher than in 2019 in terms of HUF. Before tax return on equity was at 11.4%.

Under the circumstances of COVID-19 pandemic the Hungarian domestic instant payment system (HIPS) continued it smooth operation since its launch as of 2nd March 2020. Since September 2021 HIPS enhanced its services with processing RtP and normal credit transfer batches, as well. In 2021 HIPS has cleared and settled 377 million instant transactions amounted to 2700 billion HUF. The lion share i.e. 96% of transactions have been credited in the beneficiaries' accounts in two seconds i.e. in a shorter period of time than the central bank's decree requires, namely in five seconds.

Electronic payments increased dynamically further in 2021 it accounted 1,8 billion payment transactions. The payment card accepting POS network's 98% support contactless card acceptance. In 2021 from the 1,8 (1.5) billion electronic payments more than 1,2 billion were executed by payments cards in value 10,000 billion HUF. The number of transactions via internet were 62 million in value 802 billion HUF while the number of mobile wallets reached 1 million.

The value of loans granted to non MFI sectors increased by 7.6% in 2021 in terms of HUF. 50.1% of the concerning loan portfolio is provided to non-financial corporates and 36.6% to household sector. The deposit value of the banking sector – excluding interbank transactions - remarkably increased in 2021 (by 16.4%) in total, corporate and household contributed positively, altogether by 16.7%.

The KÁT feed-in-tariff system in Hungary, which was available for new RES investments for more than 10 years until the end of 2016, was a calculable and reliable system supporting the financing of renewable projects and was very favourable for RES investors. However, in 2017 a new operative incentive scheme called METÁR was introduced that is a bit stricter, more competitive, and provides a tender-based premium (contract for difference) type subsidy (over the reference market price) to RES investors (except for household-sized power plants where the net metering system is applicable). These days in Hungary, the primary trend is the hegemony of solar projects. The transition from KÁT Regime to METÁR generated a rush for KÁT licensing before its closure. More than 2,800 KÁT-eligible power plant licenses (over 2,000MW combined) had been submitted by the end of 2016. The most popular RES projects were solar power plants with 0.5 MW capacity under the KÁT with 25 years mandatory takeover period. From the altogether 2900 MW KÁT PV portfolio, ~1900 MW has been built or will be built by the end of 2022. The remaining ~1000 MW is expected to be built in 2023–2024, some of them not yet financed. These are mainly bigger (20-50 MW) PV projects.

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