Another set of disappointing GDP data for Hungary

The Hungarian economy is struggling to return to a sustainable growth path. Second-quarter GDP data show that growth momentum has been lost again and the economy is contracting. As a result, we have significantly lowered our GDP forecast for 2024

Economic uncertainty is pushing Hungarian households towards saving rather than spending

-0.2%

GDP growth in Q2 (QoQ, swda)

ING forecast 0.6% / Previous 0.7%

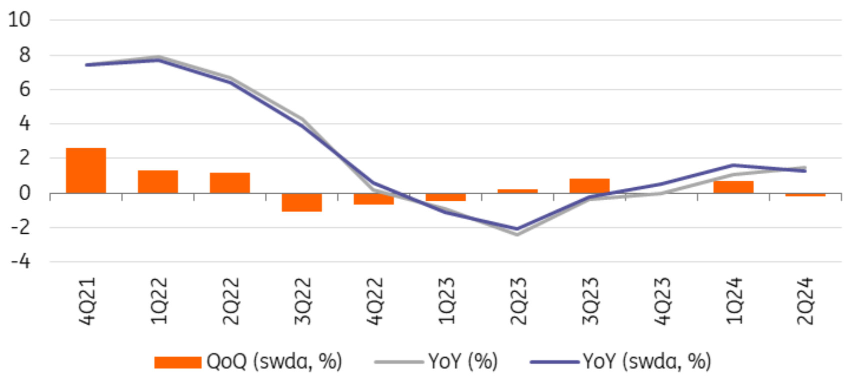
Worse than expected

The Hungarian economic growth bubble bursts in the second quarter

In the run-up to the release of second-quarter GDP, forecasts for the performance of the Hungarian economy were hugely mixed. Expectations regarding the quarter-on-quarter (QoQ) figure ranged from contraction to dynamic growth.

The release of the Hungarian Central Statistical Office (HCSO) data proves that those who expected the economy to contract were the most accurate. In the second quarter of this year, the volume of Hungarian GDP fell by 0.2% compared with the previous quarter. This also means that the zigzagging continued, with a better quarter followed by a weaker one. This suggests that underlying economic processes were rather weak, but occasionally there is a sector capable of higher growth for a short period, for some specific reason.

Hungarian GDP growth



Source: HCSO, ING

Despite the quarterly economic contraction, the year-on-year (raw) volume index improved from 1.1% to 1.5%, thanks to a low base last year. It is clear, therefore, that the improved yearly index is merely a statistical effect and not the result of real economic performance.

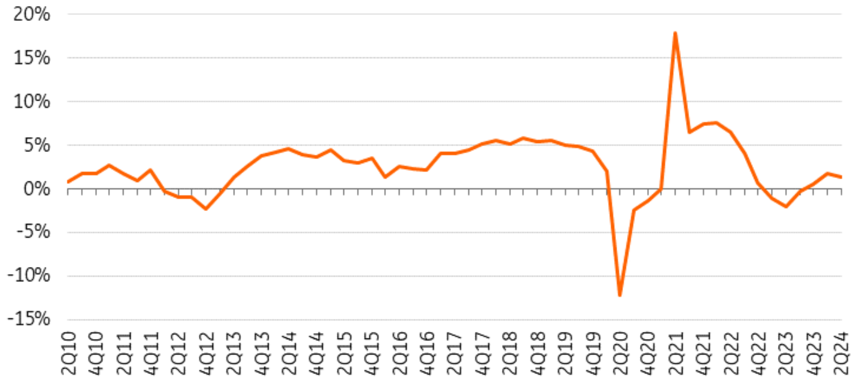
According to the brief commentary from the HCSO, we can say that the specific positive impact mentioned above was generated by the construction and real estate sectors this time. On top of that, the balance of product taxes and subsidies*, which are linked to the evolution of the government accounts, was also a major positive contributor. This positive performance is in line with the improved fiscal data in the second quarter.

*The balance of taxes and subsidies on products: equivalent to the balance of taxes and subsidies related to the acquisition, sales and delivery of the goods and services (customs duties, excise duties, value-added tax, producer price subsidy and consumer price subsidy).

Given the construction sector's monthly performance indicators, a positive contribution for Q2 was expected. Among services, only real estate was cited by the HCSO as a significant contributor to the recovery, suggesting that wholesale and retail trading remained weak, i.e. the negative surprise could be mainly due to the lack of momentum in consumption.

Among the factors holding back economic performance, the flash report highlighted industry, which is hardly surprising given the sector's recent performance.

The quarterly annualised growth rate of Hungarian real GDP



Source: HCSO, ING

Over the past four quarters, the alternation between stagnation and dynamic growth has meant that the year's economic growth has been rather subdued. Given the current unfavourable data, the annualised dynamics of average quarterly growth over the past four quarters (seasonally adjusted annual rate) point to a rather subdued expansion of 1.3%.

The 2024 economic outlook gets bleaker

In terms of GDP growth for the year, the second quarter figure has drastically redefined the outlook. Based on the new data alone, we now expect the economy to expand by 1.5% instead of the 2.2% previously forecast. Moreover, this is only a technical change, i.e. the economic forecast for the coming quarters has not changed. This also makes it clear that the 2.2-2.3% economic growth expected for this year in the latest government communication would require a very strong recovery in the second half of the year.

Translated into numbers, the Hungarian economy should grow by 1.6-1.8% on a quarterly basis in both the third and fourth quarters. The fundamentals are hardly there. First, we do not expect a drastic change in external demand. There is a constant stream of negative news from European industry, especially from Germany; whether it is the layoffs at ZF, Continental or Bosch or the recent explosion at BASF's largest chemical plant. The latter could mean a further blow to supply chains. Moreover, the Hungarian economy is also feeling the negative effects of weak external demands, with reports that the Mercedes factory in Kecskemét (HU) is permanently returning to a two-shift pattern rather than three-shift, which means a 33% drop in production. In other words, we don't expect a recovery in industry and exports in the months ahead.

There may be some hope of a pick-up in domestic demand, but for the time being there does not seem to be much investment activity planned by companies. Such an uptick in gross fixed capital formation is neither justified by the domestic and external outlook, nor by capacity utilisation.

In addition, the unpredictability of economic policy encourages decision-makers to save rather than invest. Given the need for fiscal consolidation, public sector investment is unlikely to provide a meaningful stimulus. And for consumption to pick up, households would need to become less cautious and more willing to spend. Economic uncertainty and the political narrative are also pushing households towards saving. In the latter case, it is particularly interesting to see the turnaround that is unfolding, with talk of a "peace budget" next year.

So, whichever way you look at economic developments in the coming months, it is hard to see any area that could on its own provide the momentum needed to push Hungarian GDP growth for the year as a whole meaningfully above 2%. That is why we are going to use the just presented technical forecast, i.e. economic growth of only 1.5% in 2024 as a baseline, until the detailed data of the second quarter become available.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

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