Hungary: Downgraded GDP outlook

As we know more and more about the new economic reality and monetary & fiscal packages being revealed, the time has arrived to update our GDP outlook – and it is not nice. We see GDP contracting by 3.2% in 2020

Hungary's parliament building in Budapest

We're having difficult times in our daily lives. Consumers and businesses need to cope with a new, harsh reality. As an analyst, the task is also much harder as the economic environment is changing on a daily basis. Yet we try to provide an update to our GDP outlook for Hungary. Since our last update, which saw GDP contracting by 0.8% year on year in 2020, we have received hard and soft data, anecdotal evidence, monetary and fiscal packages.

Now we label our previous forecast as the 'best-case' scenario and as our new base case we expect GDP to contract by 3.2% in 2020. We also add two more scenarios here. For the assumptions and drivers behind our scenarios, please check our global forecast update. In a nutshell, along with the 'best' and 'base' cases, now we introduce our winter lockdown (or 'worse') case and the 'worst' case forecasts.

But first things first, here are the key drivers on why we moved to a new 'base' case:

Data: Manufacturing PMI plunged to a level that is lower than in 2008-2009, which points to a sharp drop in industrial production. However, the January and February industrial production figures came in above expectations. Retail sales surged on the panic buying. All in all, GDP might be able to avoid contraction in 1Q20 on a quarterly basis and the second quarter might be the low-point.

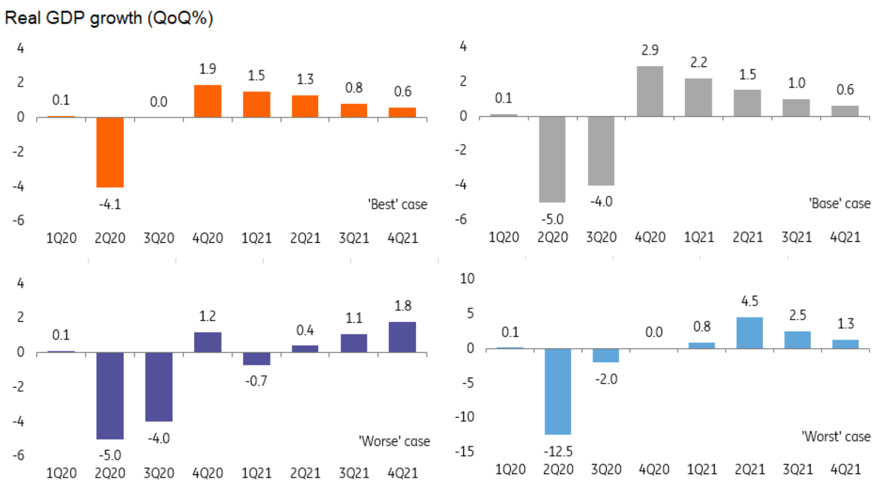
Anecdotal evidence: Some might still see our base case as overly optimistic. However, more and more manufacturers have announced that they are getting back to work, opening the gates to restart production from mid-April. The government decided to tighten the restrictions only for Easter, more good news for businesses.

Monetary policy: The National Bank of Hungary hiked rates, scrapped targeting of crowded-out liquidity, started a new lending scheme, fine-tuned some of the already existing tools and announced a government security purchase programme. We see these as decisive steps to help stabilise the forint, but it might be not enough to support the economy.

Fiscal policy: According to the headlines, the full package (including NBH measures) are worth 18-20% of GDP. The financial details are still unclear, but it seems that the government is rather just using its built-in reserves, restructures the previous spending and relies on extra one-off revenues, like a 'bank tax advance', a retail sector tax and a dividend paid by the NBH. Against this backdrop, it is rather a small package in new money, meaning it will hardly provide a safety net for the economy.

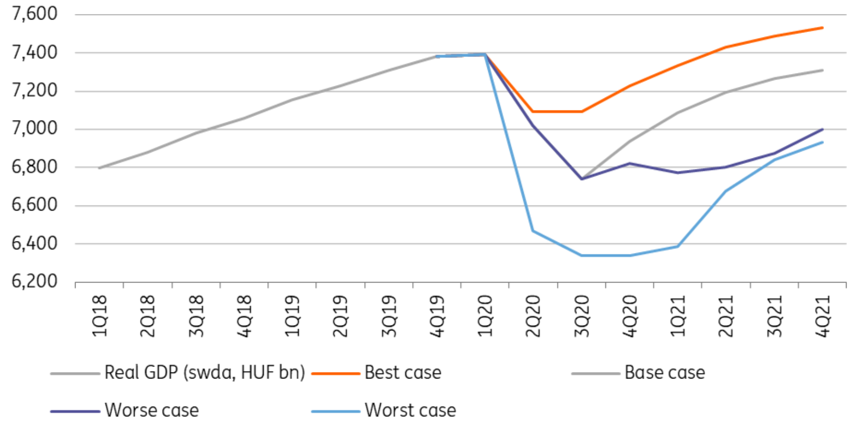
Against this backdrop, our expectations regarding the 3.2% GDP contraction might prove to be optimistic again. Let's see what the March data will bring us and, in the meantime, here are our four scenarios until the next update.

The four scenarios for Hungary (%QoQ)



Source: ING

The path of the Hungarian real GDP in our four scenarios



Source: HCSO, ING

The four scenarios for Hungary (%YoY)

	2020					2021				
	1Q	2Q	3Q	4Q	FY	1Q	2Q	3Q	4Q	FY
'Best' case	3.7	-1.9	-3.0	-1.8	**-0.8**	-1.1	5.0	5.6	4.5	**3.5**
'Base' case	3.7	-2.9	-7.8	-5.7	**-3.2**	-4.5	2.7	7.8	5.6	**2.9**
'Worse' case	3.7	-2.9	-7.8	-7.3	**-3.6**	-8.7	-2.9	2.0	2.8	**-1.7**
'Worst' case	3.7	-10.5	-13.3	-13.8	**-8.5**	-13.9	3.5	8.0	9.6	**1.8**

Source: ING

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