

Hungary seems all set for a record year in 2021

The Statistical Office revised up the first-quarter GDP growth for Hungary to 2.0% quarter-on-quarter. The strong start and details suggest we are likely to see the economy growing by around 7.4% this year



2.0%

GDP growth (QoQ, swda)

First estimation 1.9%

Better than expected

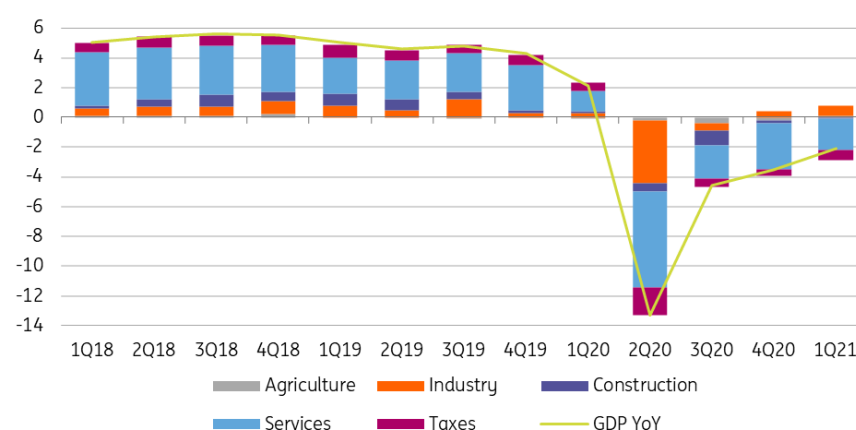
Surprises everywhere

The strong quarterly based GDP growth in the first quarter of 2021 was more than surprising - almost shocking in a positive way. The Hungarian Central Statistical Office was able to raise that with an upward revision to the first-quarter performance, and now we know the details behind the surprise.

We cannot point out to one single sector being responsible for the strong activity on the production side. Industry had a rollercoaster-like first quarter based on high-frequency data, suggesting moderated growth. In contrast, industry grew by 3.1% quarter-on-quarter from a value-added perspective, mainly driven by manufacturing. The construction sector was expected to show a mild deceleration based on monthly output data. But the value-added data showed us a 6% QoQ rise in this sector.

Even though we forecasted a significant deteriorating of services activity due to the stricter lockdowns during the third wave, we were wrong. Compared to the fourth quarter of last year, services rose by 2.2% QoQ, fuelled by information, communication, logistics and scientific activity. Last but not least, despite weather issues, agriculture was also able to grow.

Contributions to GDP growth – production side (% YoY)



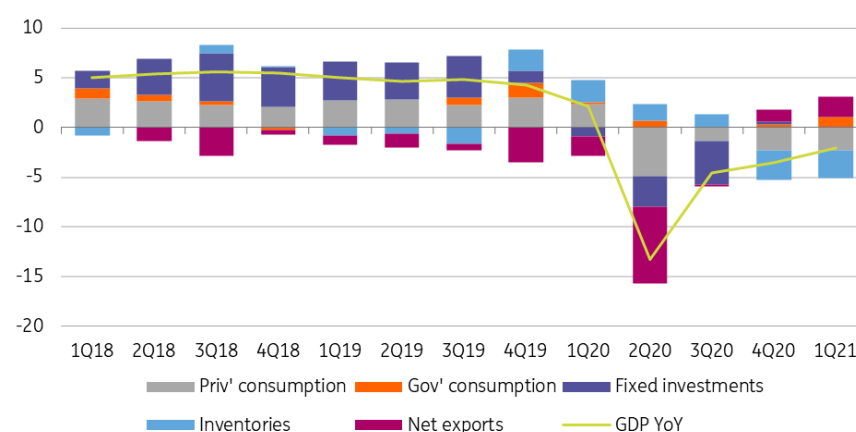
Source: HCSO, ING

On the expenditure side, the quarter-on-quarter growth profile mimics the above-mentioned widespread growth, maybe except for one thing.

Investment activity, what we thought would be behind the significant upside surprise in GDP growth, disappointed. It registered a 0.6% QoQ drop in 1Q21. All other sectors improved. Household consumption slowed but produced a 0.9% QoQ growth, while government consumption remained strong at a 2.6% QoQ pace of increase. The strong consumption was supplied from inventories as it had a significant negative contribution to GDP growth. This means a considerable upside potential for the reopening activity.

To round out the set of positive surprises, we need to talk about Hungary's export activity. Export of goods and services increased by 2% QoQ and 2.2% QoQ, respectively, despite the travel ban and shipping and supply chain problems. Import, on the other hand, was significantly weaker for both goods and services. This translated into a significant positive contribution to GDP growth from net exports.

Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO, ING

What's next?

The growth profile of the first quarter showed remarkable resilience and flexibility regarding the economic actors. This provides us with a sneak-peak of what we can expect in the second quarter, where we see a set of positive impulses pushing the GDP.

Reopening is just one thing among many supporting the rebound

The most obvious one is the strengthening of the services sector alongside consumption on the final use side. With life getting back to normal, people will use their savings to buy experiences (and maybe goods too). Recreation services, travelling, arts and entertainments are all open now (with only minor restrictions) along with bars, restaurants and cafés.

As the past two-quarters of consumption depleted inventories, we expect companies to stock up on inventories during the reopening phase, boosting economic activity. Housing market programs and infrastructural developments will fuel the construction sector. Industry remains an enigma, but in all, we can't see a collapse here. Last but not least, there is investment activity. Again, government projects will support this, but the upcoming turnaround from the monetary policy (i.e. rate hikes and possible scale back of lending programmes providing cheap money) might urge companies to take loans before rates are becoming higher.

We see the Hungarian economy to register a 7.4% GDP growth this year

All of these can translate into another 2%-ish quarter-on-quarter GDP growth (or even more). With the low base provided by the sudden stop of the economy during spring 2020, the year-on-year GDP growth will show us an extreme number, maybe around 17%. With such a first half of 2021, it

is almost impossible for the Hungarian economy not to register a record-high GDP growth for the full year. With the possibility of EU transfers coming during the second half and the general election approaching, we see additional booming economic factors during the second half of 2021. With all that said, we see the Hungarian economy registering a 7.4% GDP growth this year.

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