# Weaknesses revealed in Hungary's Q3 GDP

The Statistical Office left the 0.7% quarter-on-quarter GDP growth for the third quarter, unchanged at its review. Details have revealed weaknesses in the growth structure, giving cause for concerns

Workers on an assembly line at an Audi factory in Hungary

0.7%

GDP growth (QoQ, swda)

Flash estimate: 0.7%

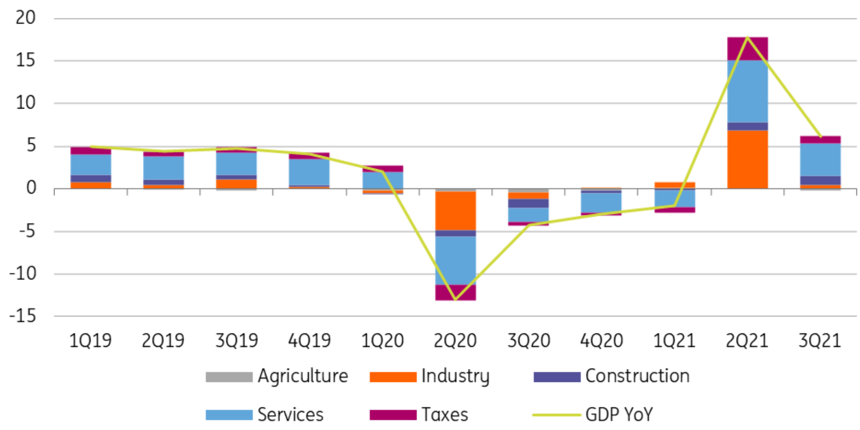
## Q3 GDP growth bleeds from several wounds

The first half of 2021 was all about positive surprises around the performance of the Hungarian economy. We couldn't, however, say the same thing for the third quarter. The flash estimate caused a downside surprise with a 0.7% QoQ GDP growth roughly two weeks ago. The recent review by the Hungarian Central Statistical Office confirmed the marked slowdown. Although the house is not burning, we see some developments giving cause for concerns.

Our worries start with the uneven structure of economic activity. On the production side, there was only one sector showing growth. The value-added of services increased by 2.2% on a quarterly basis, much better than the previous three-month period. This is connected to the reopening of the economy, which was in full swing during the summer months with households happy to spend money on experiences.

But the good news ends here. Agriculture showed a 4.8% QoQ drop, mainly due to weather-related issues. The value-added of industry sunk by 2.7% on a quarterly basis, as manufacturers (especially those related to the car and electronics sectors) were forced to sporadically shut down production and/or cut the number of shifts and working hours at their factories. Finally, equipment, material and labour shortages took a toll on the construction sector as well, with the sector's performance decreasing by 0.3% QoQ.

## Contributions to GDP growth – production side (% YoY)



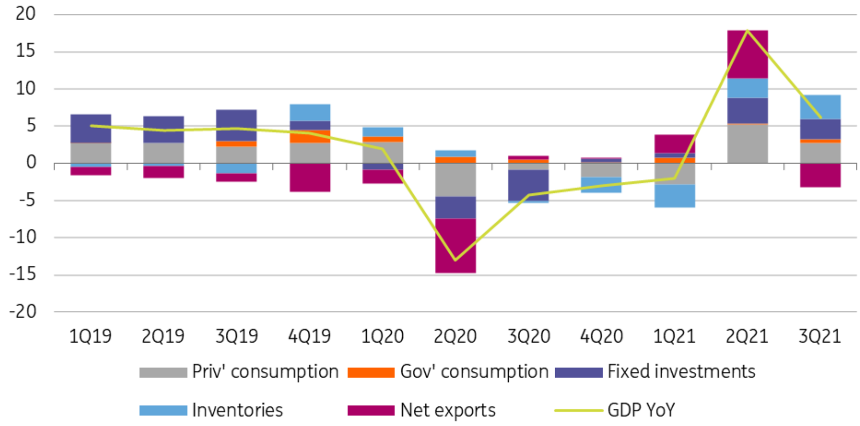

Source: HCSO, ING

Since the services sector was the lone positive contributor to growth, we expected a strong outing from consumption on the expenditure side, but in reality, this was just another disappointment. Actual consumption of households rose by only 0.6% QoQ, showing a significant deceleration compared to the second quarter performance. Moreover, it has been the slowest growth in six quarters.

In contrast, actual consumption of government departments, jumped by 2.6% on a quarterly basis. Based on this, government was the main driver of growth, not households.

When it comes to investments, it is a case of more disappointment. The 1.3% QoQ growth is lower than the previous reading. The slowdown could be tied to the increasing interest rate environment as well as the closure of subsidised credit programmes and the lack of supply of investment goods. But the real deal was net exports. It was a significant drag on economic activity, as rising domestic demand pushed imports higher (1.2% QoQ), while global value chain constraints, translated into decreasing export activity (-0.8% QoQ).

## Contributions to GDP growth – expenditure side (% YoY)




Source: HCSO, ING

## Downside risks rule the outlook

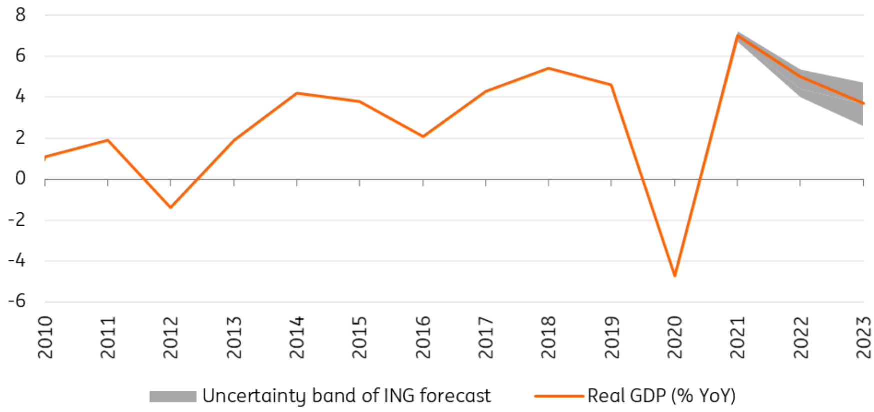
The details of the 3Q21 GDP growth clearly demonstrate that Hungarian economic activity is fragile because the growth is pretty one-sided. The new wave of Covid and its new variant, pose a significant downside risk to the GDP in the coming quarters.

When looking at the key sectors of the economy, we expect both industry and construction to keep struggling with global supply chain woes.  The energy crisis and Labour shortages also add to the growing pile of problems. In this respect, we hardly can expect a sudden resurgence in export activities. The only engine of growth is the services sector, which would almost certainly be drowned by a new wave of strict containment measures. Against this backdrop, it is easy to understand why, so far, the government hasn't put any strict safeguarding measures in place.

What we have also learned, is that in the absence of the 8% of GDP fiscal support during the fourth quarter of this year and the first quarter of next year, Hungarian economic growth will slow down significantly. But because of the fiscal impulse, we see consumption and investment activity picking up in 4Q21, translating into accelerating GDP growth. With that, we still see the 2021 average GDP growth at 7.0%, but downside risks are clearly mounting.

When it comes to 2022, the risk map is now full of negative outcomes. The fourth wave of Covid is still with us, while the possible fifth wave generated by the Omicron variant, could be on the doorstep as well. If European economies follow China's Zero Covid strategy, that could pose a significant downside risk to the already wounded Hungarian export sector. But the silver lining provided by the government's fiscal measures are giving us hope.  We are therefore maintaining our 5.0% GDP growth forecast in 2022 with the important side note that it could be much worse, should all of the downside risks materialise.

## ING's real GDP forecast – Hungary




Source: HCSO, ING

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