Hungary's economy sees a sluggish recovery

Flash GDP data for the fourth quarter shows the Hungarian economy has emerged from a technical recession. Even so, the overall picture still isn't looking too rosy, and the economy as whole is lacking a strong positive momentum

Budapest, Hungary

0.5%

As expected

GDP growth in Q4 (QoQ, swda)

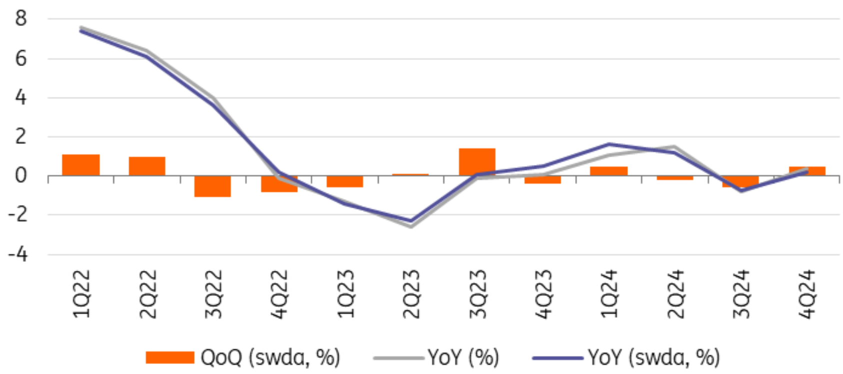
ING forecast 0.5% / Previous -0.7%

There were signs that the Hungarian economy hadn't ended last year on a strong note even before the release of Hungary's fourth quarter GDP data. In turn, the Hungarian Central Statistical Office (HCSO) has published a figure that was quite close to the already muted consensus forecast.

We're looking at the new figures with ambivalent feelings. The 0.5% quarter-on-quarter growth has clearly pulled the Hungarian economy out of a technical recession. This is good news. But seasonally and calendar-adjusted GDP growth in the fourth quarter was only 0.2% year-on-year – a poor performance by any measure, indicating a sluggish pace in the country's economic recovery.

GDP growth for 2024 as a whole was only 0.5%, well below expectations from the start of the year. More worryingly, this is the second year in a row that economic activity has delivered a significant negative surprise compared with earlier expectations. All in all, our hopes for 2025 are looking slim.

Hungarian GDP growth



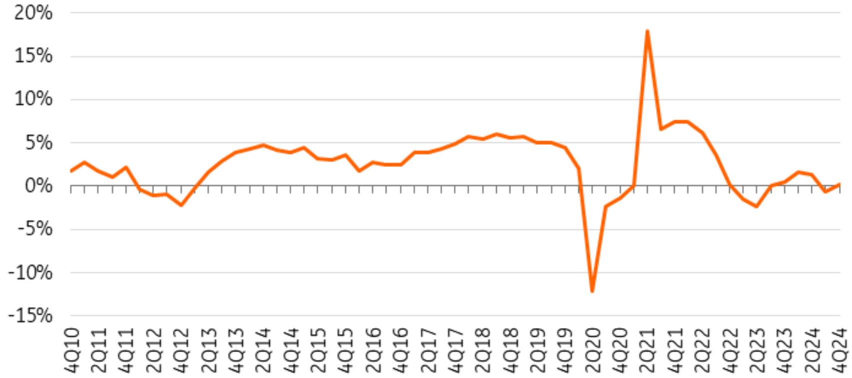
Source: HCSO, ING

The HCSO usually provides little detail on underlying processes in its flash releases – but what we have learned from this release is entirely consistent with what we have inferred from high-frequency sectoral data. The volume of value added in agriculture, industry and construction all fell on an annual basis in the fourth quarter of 2024. In our view, agriculture became a major negative contributor due to the combined effect of bad weather and a high base. Industry continues to lack external demand as the global inventory cycle has yet to turn.

Meanwhile, construction has been very hectic, but there is a clear sense of weakness in the form of subdued demand from both businesses and households. We think the downturn here is mainly due to a lack of government orders as a result of fiscal austerity. At least in the construction sector, order books are expanding solidly, and that bodes well for the future. The HCSO also pointed out that it was the performance of the services sector that offset the negative performance of other sectors and ultimately led to at least a modest increase in real GDP.

However, this is likely to have been accompanied by the use of services abroad (e.g., a pick-up in imports). In other words, on the final use side, we expect consumption to have been the driving force, with investment activity likely to have shown a marginal improvement as net exports pulled back the economy's performance to a greater extent than it had previously.

The quarterly annualised growth rate of Hungarian real GDP



Source: HCSO, ING

In terms of the GDP outlook for the year ahead, the fourth quarter figure – which was broadly in line with expectations – doesn't really change the bigger picture. However, we can already see from the newly released statistics that Hungary's economic momentum is weak, as the carry-over effect into 2025 will essentially be zero. In other words, from this point of view, the base effect is not going to help GDP growth this year.

All of this suggests that the Hungarian economy would have to grow at an average quarter-on-quarter rate of 1.3-1.4% over the course of 2025 to reach the government's official GDP growth forecast of 3.4%. This is not at all unrealistic, nor does it seem impossible, as the Hungarian economy was able to do so in the years immediately preceding the Covid crisis and in the recovery phases following it. Saying that, fiscal and monetary policies were much more supportive in those years, and that is not the case today.

External demand is also much weaker than it was back then, and consumer and business confidence is more fragile and has tended to weaken in recent months. In such an economic environment, we maintain our previous forecast of GDP growth of around 2.0% in 2025. Economic activity is expected to be driven by improving consumption and investment, but will also be accompanied by a significant pick-up in import activity. Unless we see a rapid and radical change in external demand, net exports will prove a significant drag on Hungary's overall economic performance.

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