Hungarian economy slows on shortage woes

For quite some time now, we've seen upside surprises to Hungary's economic activity, but third quarter data has broken the trend. We downgrade our 2021-22 GDP outlook

Workers on an assembly line at an Audi factory in Hungary

0.7%

GDP growth (QoQ)

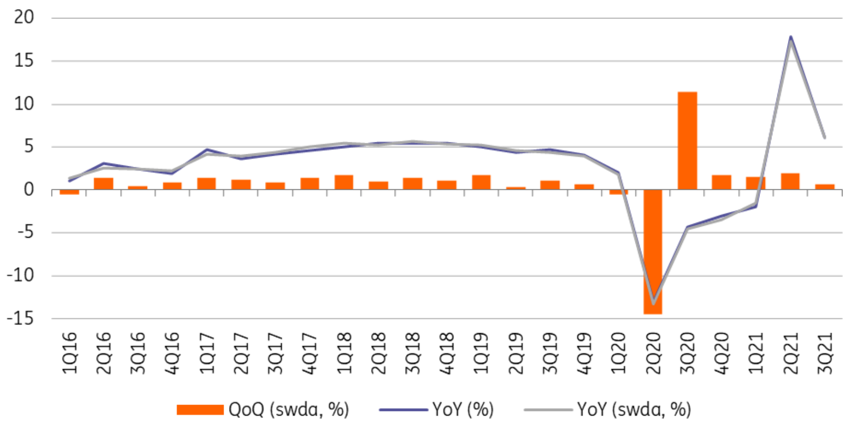
ING forecast 1.0% / Previous 2.0%

Worse than expected

Expectations were quite mixed ahead of the 3Q21 GDP data release given the uneven performance in the major sectors. Retail sales have been doing better, while mounting shortages have negatively affected output in construction and industry. We put our faith in the services sector to keep growth elevated.

However, the Hungarian economy posted a below-consensus 0.7% quarter-on-quarter GDP growth rate in July-September. This is far from a bad performance, but expectations had risen a lot after such a long series of positive surprises. On a yearly basis, the volume of GDP was up by 6.1% in 3Q21. This also means that Hungary is well above the pre-crisis level of real GDP: +1.5% compared to the third quarter of 2019.

Hungarian GDP growth



Source: HCSO, ING

When it comes to the details, the Hungarian Central Statistical Office didn't share too much in its flash report. Details will be released on 1 December. The statement highlighted that the most important positive contributor was the services sector. This means two things: 1) more than one sector was able to drive growth and 2) the structure of growth will be in line with expectations.

On the latter, we expected services to be the main driver, as the burden of Covid-related containment measures was fully removed by the third quarter. However, it seems that value-added growth in industry and construction probably performed below expectations. The reason behind this is obvious: equipment, material and spare part shortages were affecting output throughout the quarter. This could put a stronger-than-expected brake on export activity. Meanwhile, further improvement in domestic demand pushed import activity higher. As a net effect, Hungary's external balances are worsening, negatively impacting GDP growth.

We are downgrading our GDP forecast

This 0.7% QoQ third-quarter performance and developments in the fourth quarter are a warning to be more cautious on the GDP outlook. Based on the first three quarters of 2021, GDP rose by 7.1% YoY. Given the shutdowns in industry and their negative impact on export activity, and considering the fourth wave of Covid-19, the fourth quarter economic performance could be somewhat weaker than we previously forecast. At the same time, we also know that the government has mobilised significant fiscal resources for the last quarter of this year and the first quarter of next year to boost GDP growth. This may be able to partially offset the negative effects, although this stimulus to aggregate demand may also have a significant impact on import growth. In all, we are downgrading our GDP forecast to 7.0% YoY and 5.0% YoY in 2021-2022, respectively.

Monetary policy impact

Today's data and the looming downside risks regarding the economic outlook may prompt the National Bank of Hungary to be more cautious. So the likelihood that the central bank will join regional peers in raising interest rates by huge steps has diminished, in our view. The NBH will continue to tighten monetary policy conditions in a 'slow-but-steady' manner, hiking the base rate by 30bp at its November rate setting meeting.

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