

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%

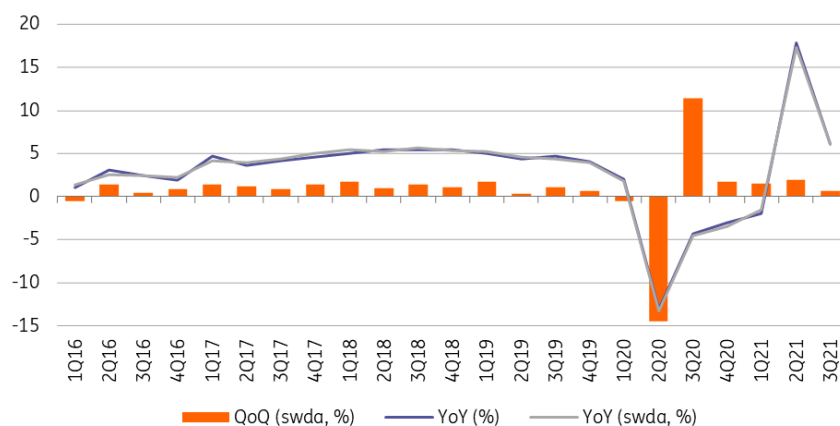
Worse than expected

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.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.