

## Hungary: Charts will never be the same again as GDP has double-digit drop

Something harsh was expected, but still the 13.6% year-on-year slump in GDP in the second quarter caused a significant surprise. History books and charts have changed forever



Hungarian Prime Minister Viktor Orban addresses workers at a car factory earlier this year

# -13.6%

2Q20 GDP (YoY)

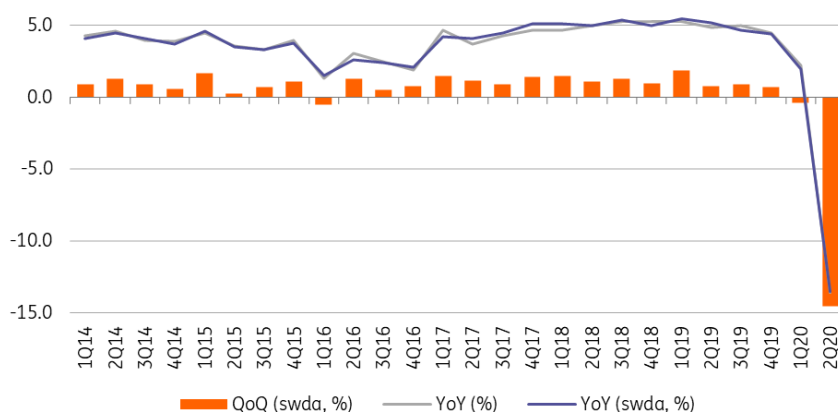
Consensus -10.1% / Previous 2.2%

Worse than expected

Hungarian GDP plummeted by 13.6% on a yearly basis in the second quarter of 2020, according to the preliminary data release of the Hungarian Central Statistical Office. When it comes to the quarter-on-quarter performance, we see a 14.5% collapse. Needless to say, this data is the worst on record by a high margin. It makes it official that Hungary is going through a technical recession. Local economists were more pessimistic than the Bloomberg consensus, but even locals were surprised by this dip. However, we won't know about the unexpected factors until the end of the month, when we'll get to know the details behind this negative record.

So being an advance estimate, the press release did not include any details about sector performance other than “*the extraordinary situation resulting from the coronavirus pandemic caused production to decline in most sections of the economy, services and industry both largely contributed to the change in the economic performance*”. What it does mean is that there was at least one area where production was able to increase. Our bet is on the pharma industry and on the final use side it should be government consumption.

## Hungary's GDP growth



Source: HCSO, ING

Now let's see the positives in today's data. The second quarter is behind us and now we know how deep is the hole from which we need to climb. Based on big data, this recovery has already started, but maybe it's a bit slower than we might have expected. The rebound will also be slowed by the intensification of the spread of the Covid-19. The number of new cases is increasing on a daily basis again in Hungary. It could result in targeted restrictions and partial lockdowns. We are not there yet, but we could be. Given this backdrop, the uncertainty is still enormous so forecasting economic activity in the second half of the year is close to impossible.

But still, this is our job. If the virus can be contained in a manageable fashion from an economic point of view, third-quarter GDP growth could be the strongest ever, maybe even in the double-digit territory in QoQ terms. Of course, recovery will slow as the temporary economic policy measures are coming to an end (e.g. short-term work schemes, tax relief) and economic reality will catch up, notably in the labour market. All in all, we still can end up with “only” a 5.5% GDP drop in 2020 as a whole. If targeted lockdown measures slow the rebound (but still not a full second wave with a full lockdown), we see GDP falling by around 7.5% this year. Anyhow, it will take at least two to three years to see Hungarian economic activity reach pre-crisis levels.

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