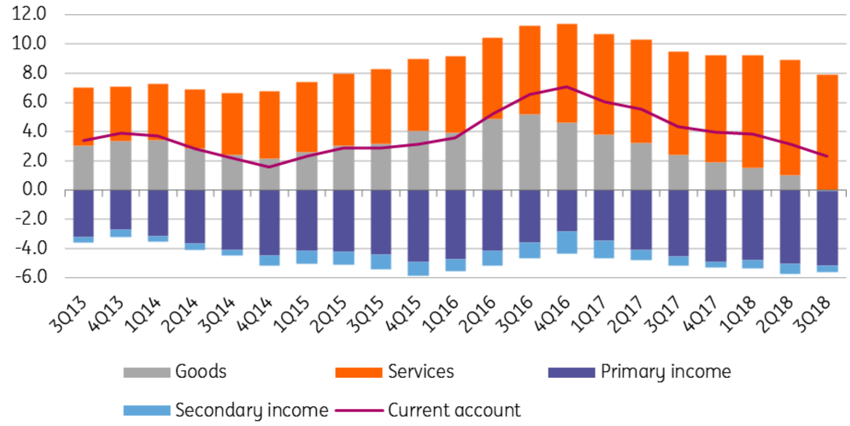
Hungary: Current account surplus narrows

The current account (C/A) surplus came down to € 2.3 billion or 1.8% of GDP in January-September 2018, the lowest reading since 2014

The deterioration in the Hungarian C/A surplus, which started at the end of 2016, has continued. The current account balance came in below expectations at € 155.7bn in 3Q18, the lowest quarterly surplus since 4Q14. Taking into consideration the four-quarter rolling data, the € 2.3bn surplus is 53% lower than a year ago. The main driver behind the significant deterioration is the trade balance in goods, which dropped into negative territory, thus showing a deficit for the first time since 2008. This was partially counterbalanced by a still strong increase in the trade balance in services.

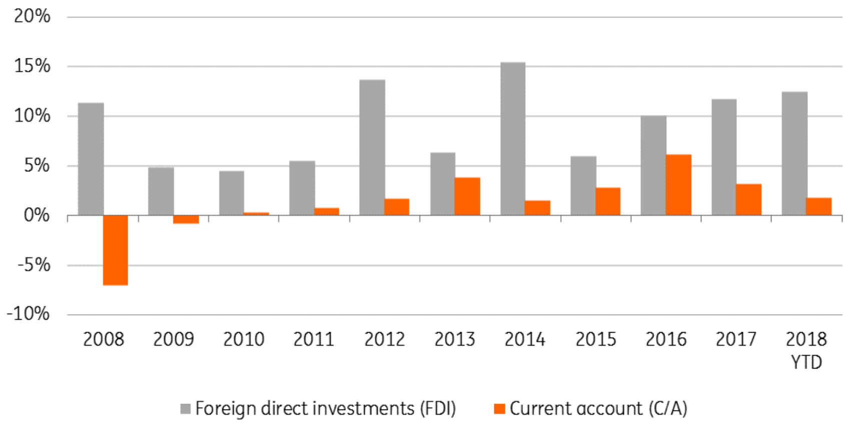
Current account breakdown (€ bn, 4-quarter rolling)



Source: NBH, ING

Despite the fact that the narrowing current account surplus could put EUR/HUF under pressure, we saw some positives too. Foreign direct investments (FDI) were ramped up in 2018, reaching a 12.5% of GDP inflow in 2018 so far, the highest since 2014.

FDI inflow improves the big picture (% of GDP)



Source: NBH, ING

We expect the GDP growth to slow down and the export activity to strengthen in 4Q18 mainly on the back of the car manufacturing, which slowly but surely shrugs off the emission test fiasco. If everything falls in place, the recent 1.8% of GDP surplus can be maintained, matching our latest C/A forecast released in November. Even if we saw the 4Q18 current account balance at zero, the year-to-date surplus will reach roughly 1.3% of GDP, still higher than the latest upwardly reviewed 1.1% C/A forecast by the National Bank of Hungary.

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