Hungary: Double-dip avoided

Defying all expectations, the Hungarian economy was able to grow in the fourth quarter. This gives a significant boost to the 2021 outlook

The Széchenyi Chain Bridge in Budapest (Pixabay)

Source: Pixabay

-3.7%

4Q20 GDP growth (YoY)

Consensus -5.6% / Previous -4.6%

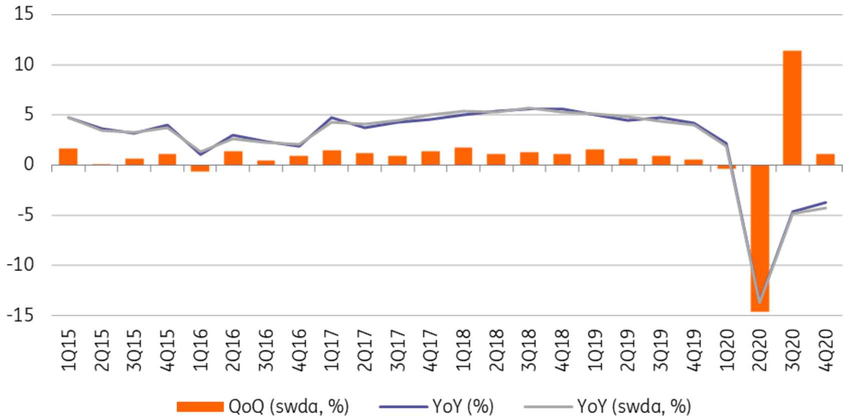
Better than expected

The data

While expectations hadn't been particularly high for fourth quarter economic activity in 2020, some positive momentum had emerged in recent weeks following speeches by Prime Minister Viktor Orbán, who suggested the economy could contract by 5.1% to 5.2% in 2020 as a whole, meaning borderline growth in the fourth quarter on a quarterly basis.

As we now know from the first estimate of fourth quarter GDP growth, the Hungarian economy far surpassed this. GDP growth came in at 1.1% QoQ. With that, a double dip has been avoided and Hungary performed much better than the EU (-0.4%) and the eurozone (-0.6%), continuing the catch-up even in a recession year.

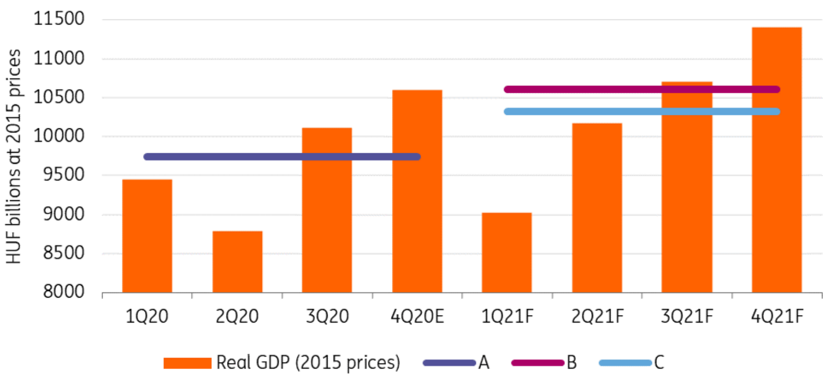
Hungarian GDP growth



Source: HCSO, ING

Nonetheless, there is still work to do, as on a yearly basis, the volume of GDP was still down by 3.7% in 4Q20. As the performance in the last quarter is much better than the 2020 average, which came in at -5.1% YoY, this means a huge positive carry-over effect on annual average real GDP growth in 2021. Based on the ECB methodology, the carry-over effect alone will provide for 8.9% GDP growth. Of course, due to base effects and the ongoing lockdown, growth dynamics will be negative.

Hungary real GDP level in 2020 and 2021



Source: HCSO, ING

The carry-over effect

The chart displays the profile of the quarterly real GDP level in 2020 and the 2021 ING base case forecast as an example of the use of the carry-over concept. The lines labelled A and C represent the average actual outcome of GDP in 2020 and 2021 respectively, while line B corresponds to the average level of GDP in 2021, if all quarterly growth rates in that year are zero (i.e. the quarterly levels remain the same as the level recorded in the fourth quarter of 2020). The percentage difference between A and C corresponds to the average annual growth rate expected in 2021 (4.3%), the percentage difference between A and B to the carry-over effect (8.9%) and the percentage difference between B and C to the estimated growth dynamics in 2021 (-4.6%).

Details and implications

When it comes to the details, the Hungarian Central Statistical Office didn't share too much in its flash report. It highlighted that industry and information and communication sectors were the most important positive contributors. Besides that, the positive surprise might also stem from financial services (due to the lending activity) as well as construction (based on high frequency data). It seems that despite the tightened containment measures, some of the sectors in services were also able to perform better than anticipated.

In all, the positive carry-over effect and the resilience in the fourth quarter during the second wave imply significant upside risk related to our 4.3% 2021 GDP forecast. With today's data, the probability of a 5-6% economic performance this year increases. This would also mean that Hungarian economic activity might be able to reach its pre-crisis level by the year-end.

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