

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%

Better than expected

4Q20 GDP growth (YoY)

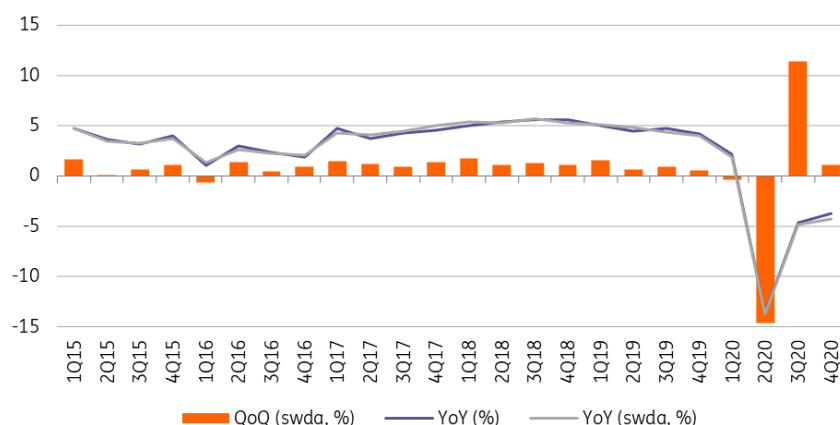
Consensus -5.6% / Previous -4.6%

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.

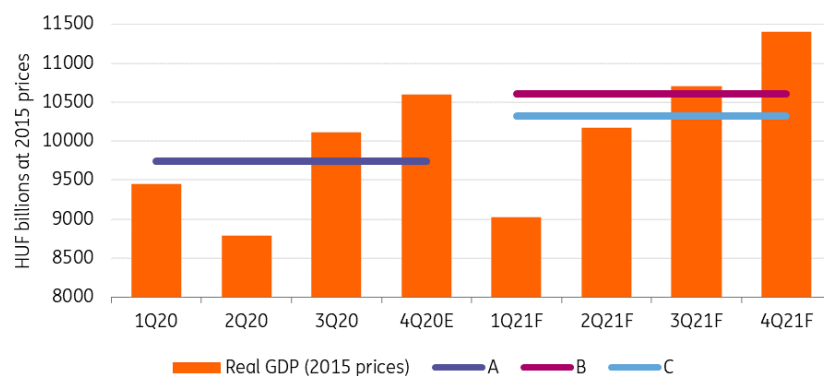
Hungarian GDP growth



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.

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 www.ing.com.