

## Hungary: Economy soars despite third wave

Defying all expectations and the third wave of Covid-19, the Hungarian economy put in an extraordinary performance in the first quarter. This gives a significant boost to the 2021 outlook



**1.9%** GDP growth

QoQ, swda

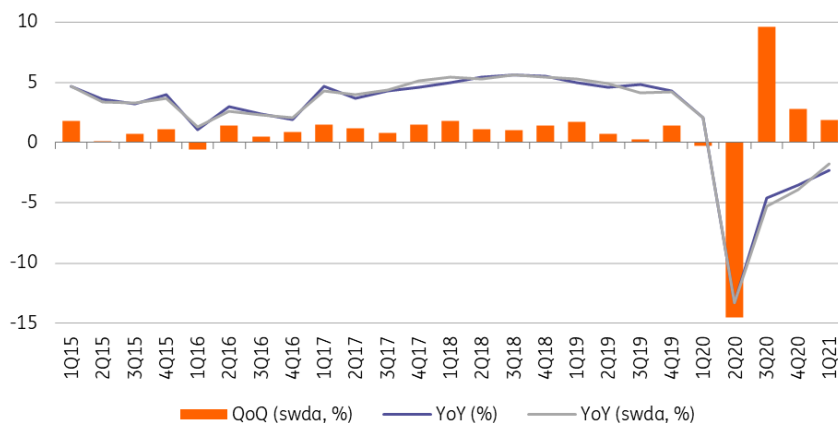
Better than expected

Expectations were quite mixed ahead of the 1Q21 GDP data release as the major sectors showed significant volatility during the first three months of the year. Part of it was coming from a high base, the other part was related to supply chain disruptions, and the third wave of Covid-19 also wasn't helpful. This one, however, affected only the March activity, so there was hope a W-shaped recovery could be avoided.

In contrast, the Hungarian economy recorded a mindboggling 1.9% GDP growth rate in the first

quarter. With that, a double-dip was clearly avoided and Hungary performed much better than the eurozone (-0.6% QoQ), continuing the catch-up even in the rebound phase of the crisis. On a yearly basis, the volume of GDP was only down by 2.3% in 1Q21. This also means that Hungary might be able to reach the pre-crisis level of real GDP during the second quarter. This rebound pace is better than the most optimistic expectations.

## 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. Detail will be released on 1 June. The statement highlighted that industry, finances and information and communication sectors were the most important positive contributors. We hardly see this as a surprise. However, it seems that value-added growth in industry and construction outperformed the respective production developments. Government consumption could also be responsible for this surprise. Due to its weight in GDP, services may have helped too, but as the third wave hit the economy during the first quarter, we hardly see this sector as being a game changer.

### *The Hungarian economy might show a 6% GDP expansion in 2021*

In all, the fact that the Hungarian economy was able to show such dynamic growth on a quarterly basis in a quarter which showed a rather mixed picture in advance means that there is a much higher recovery potential in the economy than expected. Perhaps the timing of the National Bank of Hungary's hawkish shift, which we witnessed yesterday, was no coincidence. In the light of today's data, it may indeed be more than realistic to see the Hungarian economy expanding at or above 6% in this year as a whole. All this means a significant increase in aggregate demand, which will be accompanied by increasing internal inflationary pressures.

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