

Hungary: Four-year high GDP growth, but is the glass half empty?

A four-year high GDP growth rate is a huge positive surprise, but there's a slow drop-off quarter-on-quarter so we could well have seen the best this year



Source: Shutterstock

Hungarian GDP increased by 4.6% year-on-year (YoY) in 2Q18 according to the preliminary release of the Hungarian Central Statistical Office (HCSO). This counts as a significant upside surprise, despite the fact that market expectations were widely diverse (3.6%-4.8% YoY according to Bloomberg). The four-year high YoY rate of economic expansion shows an acceleration compared to 1Q18, which was rather against the odds based on the high-frequency data such as retail sales and industry.

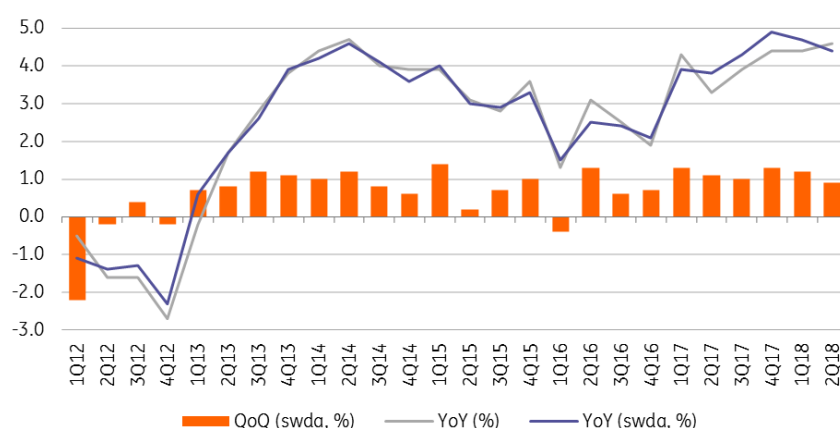
The data is preliminary and the HCSO will publish the details in early September, so we don't know exactly what were the main drivers behind the robust growth. However, HCSO highlighted that "most branches of the national economy contributed to the growth, market-based services to the greatest degree". The latter shouldn't come as a surprise. In our view, the positive contribution of agriculture could be one of the big factors here. On the other hand, gross value-added of industry could increase more as the production data suggested because of high wage growth which

elevated the share of value added in the total output. On the expenditure side, we expect consumption to be one of the main drivers, supported by a strong labour market. The surprise here may stem from net exports and its possible positive contribution to GDP growth.

Despite all those positives, we'd like to highlight that the seasonally and calendar adjusted YoY data shows a deceleration, and the quarter-on-quarter readings suggest a drop-off. If it continues, we may have seen the best performance of the year already when it comes to raw YoY readings. Nevertheless, we may see further upside surprises and we can see the government's 4.3% GDP forecast fulfilled in 2018 as a whole. We see it realistic too in the light of the current data.

Is the glass half empty or half full?

The raw data for Hungarian GDP growth jumped to a four-year high, but the adjusted indicators are showing a clear deceleration



Source: HCSO

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.