

Hungary: Off the chart GDP growth gives false hope

The third quarter brought the strongest quarterly GDP growth ever, after a collapse in the previous period. However, with the return of lockdowns and curfews, the rollercoaster goes on



A foggy Chain Bridge in Budapest; Hungary's economy is pretty murky too

Source: charlemagne (pixabay.com)

11.3%

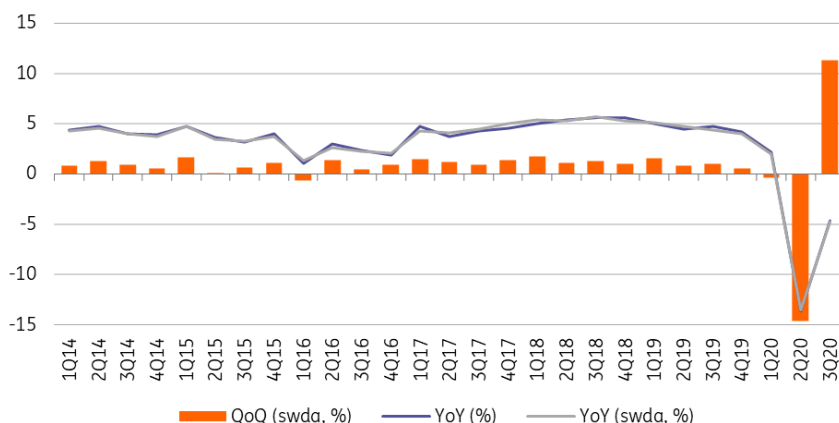
GDP growth (QoQ)

Consensus 10.2% / Previous -14.6%

Better than expected

Hungarian GDP skyrocketed by 11.3% on a quarterly basis in the third quarter of 2020, according to the preliminary data release of the Hungarian Central Statistical Office. It is the strongest quarter-on-quarter growth ever, but given that this follows a historic collapse, such an accolade means far less. Even with this strong rebound, the volume of GDP is down by 4.6% compared to the same period of the previous year.

Hungarian GDP growth

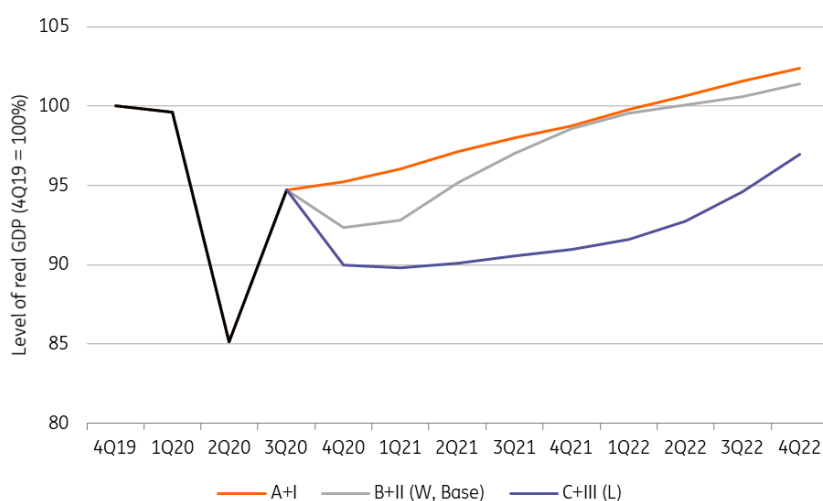


Source: HCSO, ING

As this was a flash estimate, the press release did not include many details about the performance of sectors other than saying, “the performance of most industries went up compared to the previous quarter”. That hardly comes as a surprise. But slightly more surprising was that information, communication and financial services led the rebound. In our view, industry might also play a significant role in that rebound, considering that the trade surplus in goods was already above last year’s level by September.

Due to the above-consensus figure in the third quarter, the outlook for the whole year has improved. However, as more and more countries have enforced stricter lockdowns and curfew measures, with Hungary eventually joining the list in November, the short-term outlook has become gloomier. We have now moved away from our swoosh-type scenario to a W-shaped recovery as our base case. This also means, that the ‘stop-start’ cycle will continue in the fourth quarter, as we expect a 2-3% quarter-on-quarter drop in GDP. This will lead to a 5.8% contraction in economic activity in 2020.

The path of Hungary's real GDP in our three scenarios



Source: HCSO, ING

Due to the fourth quarter dip, there is a negative carry-over effect into early 2021, dampening the outlook. On top of that, we don't see any meaningful relaxation of social distancing until the second quarter of next year, meaning a less robust rebound than after the spring collapse and reopening. With that in mind, we see GDP growing by only 3.6% in 2021 as a whole. In our new base case scenario, we expect Hungarian activity to reach pre-crisis levels only by mid-2022.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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