Hungary slips into technical recession again

Three years, two technical recessions in Hungary. The flash GDP data for the third quarter surprised to the downside. Growth momentum has been lost again, which not only forces us to lower our GDP forecast for this year, but also puts the government's growth target for next year in jeopardy

We should no longer be talking about achieving 1.5% GDP growth in Hungary, but rather be cheering for 0.5%

-0.7%

GDP growth in Q3 (QoQ, swda)

ING forecast -0.4% / Previous -0.2%

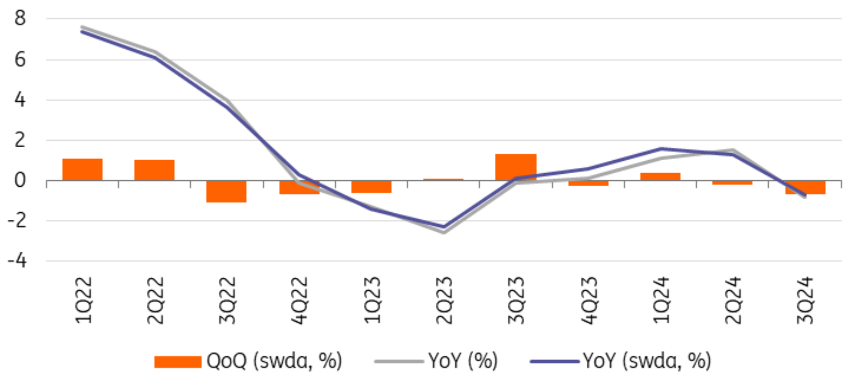
Worse than expected

Even before the release of the third quarter GDP data, there was a rather strong negative momentum among local analysts. However, no one expected the Hungarian economy to perform so poorly.

Not only was GDP growth below the market consensus, but even the most pessimistic forecast was missed. In the third quarter of this year, Hungarian GDP fell by 0.7% compared to the previous quarter. This also means that a technical recession has occurred twice in three years.

In such a situation, the volume of GDP falls for at least two consecutive quarters (i.e., the quarter-on-quarter growth indices are negative). Moreover, the decline in the second quarter was somewhat larger due to the latest revision. Real GDP in Hungary has fallen in six out of the last nine quarters. In addition to the quarter-on-quarter contraction, the base was also high; the (raw) volume index dropped from 1.5% to -0.8% year-on-year. This means that after the second quarter of 2023, the yearly based growth rate is negative again.

Hungarian GDP growth



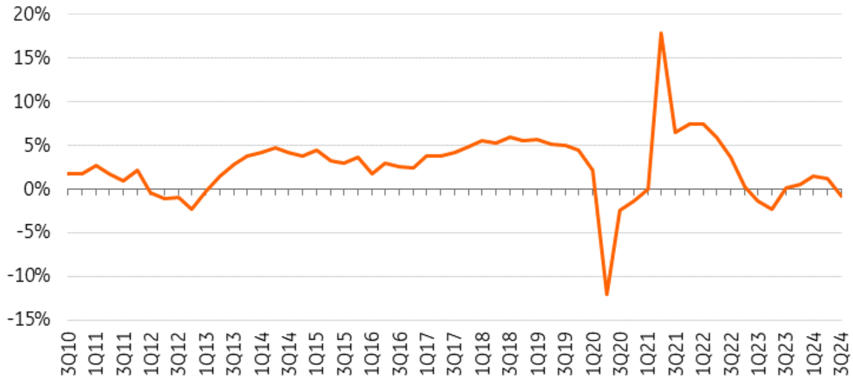
Source: HCSO, ING

The Hungarian Central Statistical Office (HCSO) usually provides few details of the underlying processes in its flash releases. However, what we have learned from this release is cause for serious concern. In itself, it is not surprising that agriculture, industry and construction have drastically slowed down the performance of the economy. The fact that the combined performance of these three sectors contributed almost two percentage points to the year-on-year contraction in the economy is also no great surprise. In our pre-publication commentary, we expected exactly this negative impulse from these sectors. The monthly production data supports this trend.

The surprise, therefore, is that the combined contribution to GDP growth from services and taxes less subsidies on products may have been only 1.2ppt. This is well below expectations. Of course, the weak performance of the economy itself implies a weak performance of taxes less subsidies on products. By contrast, the data for retail sales, accommodation and food service activities and tourism suggested a somewhat more encouraging picture for services, but cautiousness among households seems to remain very high.

It is still difficult to say what the picture might be on the expenditure side, when the HCSO is releasing the detailed third-quarter GDP data in early December, but it is likely that investment was in a slump and that consumption growth possibly slowed. Government consumption possibly also dampened GDP growth, and the role of net exports in supporting growth probably disappeared as exports continued to weaken.

The quarterly annualised growth rate of Hungarian real GDP



Source: HCSO, ING

The weak overall economic performance over the past four quarters has led to another major change in the big picture. In light of the fresh GDP data, the four-quarter moving average of the annualised quarterly growth points to an economic contraction of 0.8%, with a return to negative territory after the second quarter of 2023.

In terms of GDP growth for the year as a whole, the third quarter figure has dramatically changed the outlook. On the basis of the new data alone, we should no longer be talking about achieving a 1.5% GDP growth (the government's latest official target), but rather be cheering for 0.5%. A further contraction or stagnation in the final quarter will not allow the Hungarian economy to achieve this. And the economic measures just announced by the government are unlikely to bring about a recovery for the rest of the year. So far, there are no signs that external demand will suddenly pick up or that investment will take off any time soon. A pick-up in consumption could possibly bring an improvement, but the latest data is likely to trigger a renewed deterioration in consumer confidence, which could further dampen the outlook as another negative feedback loop.

In addition, the increasingly weak performance of the Hungarian economy since the beginning of the year also weighs on growth prospects for next year due to the so-called carry-over effect. On the basis of the technical effects alone – the lower carry-over growth – we lower our GDP growth forecast for 2025 to 2.9%. In other words, it appears that another stimulus package may be needed to reach the lower end of the rather wide growth range (3-6%) set by the government for next year. The recent cabinet press conference revealed that next year's budget will be based on a (now rather optimistic) GDP growth of 3.4%. This casts further doubt on the feasibility of the 3.7% of GDP deficit target for next year.

Authors

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Disclaimer