

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%

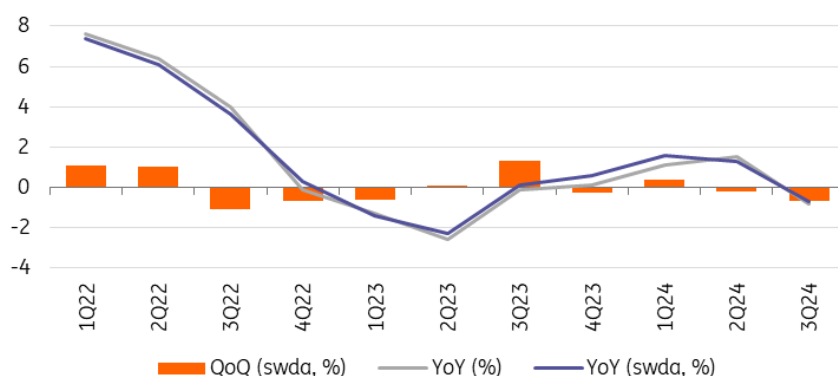
Worse than expected

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



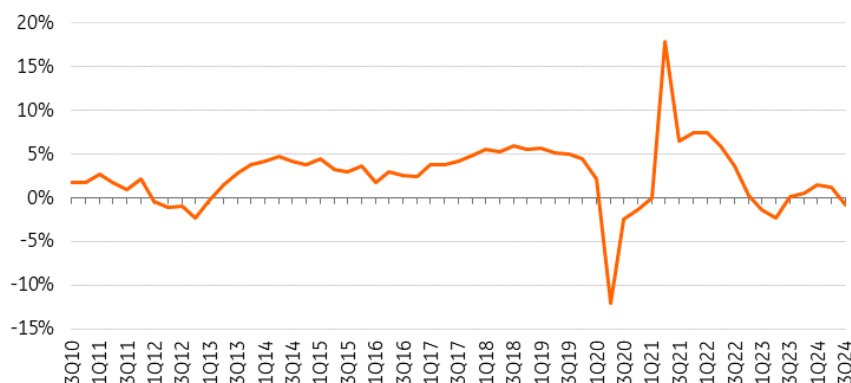
Source: HCSO, ING

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

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 <http://www.ing.com>.