

Snap | 14 November 2019

Hungary: Top of the tops

With its 5% year-on-year GDP growth, Hungary should remain among the top performers in Europe. Domestic demand is a strong driver



Source: Shutterstock

5.0%

GDP growth (YoY)

Consensus 4.4% / Previous 4.9%

Better than expected

Hungarian GDP increased by 5% on a yearly basis in 3Q19, according to preliminary data from the Hungarian Central Statistical Office (HCSO). Local economists were more optimistic (4.8% YoY) than the Bloomberg consensus, but even the local community was surprised by the upside ini these GDP numbers.

As the release did not include an exact breakdown, we have to rely on the HCSO's short commentary. Most sectors – services, construction and industry – have seen strong performances, contributing significantly to economic activity. It hardly comes as a surprise, as high-frequency data was already suggesting that a strong showing was on the cards in the third quarter.

Hungarian GDP growth



Source: HCSO

Even with a slowdown in 4Q19, GDP growth might remain close to 5% year-on-year in 2019 as a whole, after posting a 5.1% growth rate in the first three quarters. With new factories, notably starting production in electronics, industry is expected to remain a strong contributor. As the labour market has boomed this year, services will support economic activity strongly. Only construction could show a slowdown due to base effects. All in all, we wouldn't be shocked if 4Q brings another positive surprise.

What does today's data mean for economic policies?

Growth is higher than the central bank was expecting and the NBH can now adjust the balance of risks surround inflation a touch. However, we don't think we'll see a swift change in rhetoric next week. Monetary policy will remain unchanged at least until the December rate-setting meeting, but the bar is very high for any change even then.

On the fiscal side, we still can see a move in either direction. With the ongoing positive momentum, the government doesn't need to be overly aggressive supporting growth with fiscal measures, which might save more money to cut the debt-to-GDP ratio, affecting the bond supply going forward. On the other hand, strong activity will help bring in more revenue, reduce deficit and debt ratios without any fiscal effort. It translates into 'free money' in the budget to spend without doing harm to the deficit and debt goals, but it might prove to be too tempting to ramp up spending.

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

Snap | 14 November 2019

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.