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)

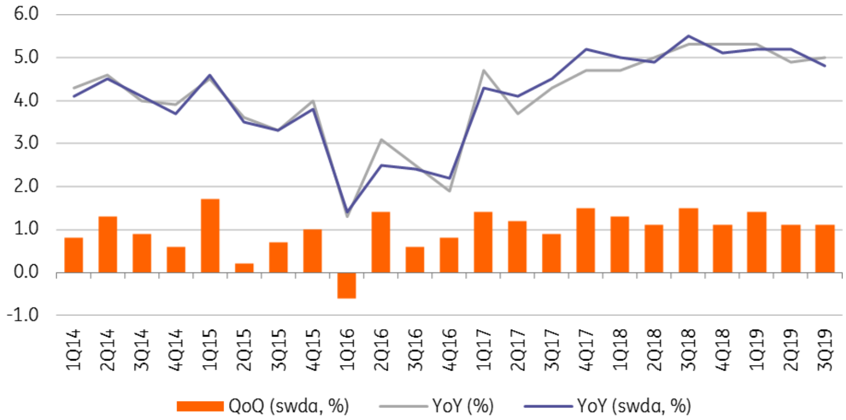
Consensus 4.4% / Previous 4.9%

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.

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