

Latest GDP data shows Hungary's economy is growing faster than ever

Official communication made us think that 4Q21 activity would be strong, and yet it is beyond expectation. The 7.1% GDP growth in 2021 is faster than ever



Hungary GDP growth in Q4 came in even higher than ING's optimistic expectation

2.1%

GDP growth (QoQ)

ING forecast 1.5% / Previous 0.9%

Better than expected

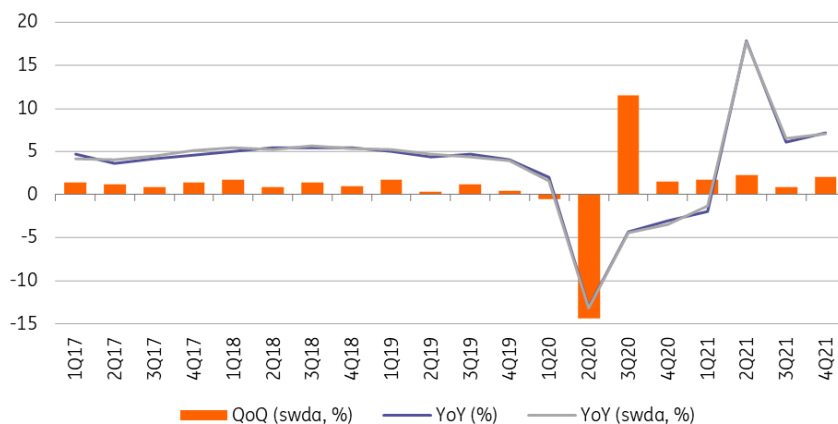
Hungarian economic activity shifts gear

Expectations were already high regarding Hungary's fourth-quarter GDP data, with government officials raising our expectations with their recent commentary. And yet, actual GDP growth in Q4 came in even higher than ING's optimistic expectation which was already way above the market consensus.

The Hungarian economy put together a 2.1% quarter-on-quarter GDP growth in the October-December period. This is the second-fastest quarterly rise – not counting the extreme post-lockdown rebound. On a yearly basis, the volume of GDP was up by 7.2% in 4Q21. This also means

that Hungary is now 4% above its pre-crisis level in terms of real GDP. Last but not least, 2021 economic activity shows a 7.1% rise which is the highest in the modern era of Hungarian statistics, providing comparable GDP data from 1995.

Hungary's real GDP growth



Source: HCSO, ING

When it comes to the details, the Hungarian Central Statistical Office didn't share too much in its flash report. Full detail will be released on 2 March. The statement did highlight that the most important positive contributor was the services sector, but this hardly gives us any hint about the "x-factors" which provided the upside surprise in GDP growth.

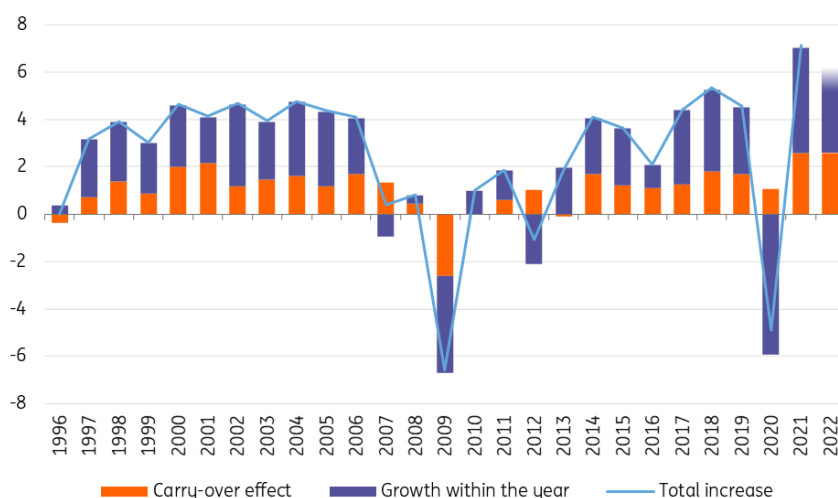
In our view, the service sector probably expanded faster than we thought based on the strong retail sector performance. Another surprise factor may have been industry and construction. Based on the monthly data publicly available, we saw nice growth in output despite the shortage economy limiting the production capacity of these sectors. It is possible that these constraints have not proved so strong in terms of added value. Based on all this, it is almost certain that the GDP growth was driven by a further recovery in consumption and, presumably, investment. Meanwhile, perhaps a slightly better industrial export performance may have constrained the negative impact of shrinking net exports on economic growth.

What does this strong finish mean for 2022?

The stronger-than-expected fourth-quarter performance also means that the so-called carry-over effect is much stronger. Conceptually, carry-over effects denote the annual average rate of growth that would result if the level of GDP reached in the fourth quarter of a given year were to remain constant throughout the subsequent year. Using the market consensus (1.2% quarterly growth in Q4), the carry-over effect would have added 1.9ppt to 2022 GDP growth. Calculating the actual 2.1% quarterly rise during the fourth quarter of 2021, this carry-over effect moves up to 2.6ppt. So, the stronger-than-expected finish alone improves the 2022 GDP outlook by roughly 0.7ppt. Against this backdrop, we see a realistic shot at an above 6% GDP growth in 2022, instead of our previous 5.5% forecast.

Decomposition of Hungary's real GDP growth (% YoY)

The 2022 "carry-over effect" is calculated from the flash GDP estimate, while the "growth within the year" is based on ING forecast (gradience reflects uncertainty)



Source: HCSO, ING

Monetary policy might need to react

The combination of today's surprisingly strong GDP data and the January inflation shock could encourage the National Bank of Hungary to continue its tightening cycle, perhaps even longer than previously expected. At present, the global supply problems do not seem to be resolving, while the Hungarian economy is showing an increasingly strong demand expansion, which will only be further heated by the government measures at the beginning of the year. Based on the latest data, we are getting closer to a scenario where both GDP growth and inflation could be above 6% on average this year. This could lead the central bank to set the terminal rate above 6% as well, instead of our latest base case of 5.5%.

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 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>.