Longest technical recession on record in Hungary

Contrary to expectations, Hungary posted a quarterly drop in GDP in the second quarter of 2023. The latest data extends the longest technical recession streak on record. We now see a rising chance of a full-year contraction in GDP growth

People shopping in the Great Market Hall in Budapest

-0.3%

GDP growth in Q2 (QoQ)

Consensus 0.2% / Previous -0.4%

Worse than expected

Economy suffers longer from current Cost of Living Crisis than Great Financial Crisis

The Hungarian economy has been in a technical recession since the third quarter of 2022, as sky-high inflation stifles economic activity. The latest GDP figures for the second quarter published by the Hungarian Central Statistical Office (HCSO) confirm that the technical recession has continued.

This means that economic output has now contracted for four consecutive quarters, the longest streak of technical recession since at least 1995 when the current GDP calculation system was introduced.

Comparison of technical recessions in Hungary

Source: HCSO, ING

t represents the last quarter with positive QoQ growth. During the Great Financial Crisis, the economy experienced three consecutive quarters of contraction in real GDP, ending with stagnation (exactly 0%) in the second quarter of 2009. In contrast, during the current Cost of Living Crisis, the economy has experienced four consecutive quarters of real GDP contraction, starting in the third quarter of 2022.

To put things in perspective, even during the Great Financial Crisis (GFC) of 2008-2009, three quarters of contraction were followed by one quarter of stagnation. This time around, the HCSO reports that the volume of GDP contracted by 0.3% Q-on-Q in the second quarter of 2023, contrary to widely expected growth. This makes the current cost of living crisis the longest technical recession on record. Nevertheless, the current recession is nowhere near as deep as the GFC.

In addition, the first quarter QoQ figure was revised downwards from -0.3% to -0.4%. As a result of the negative momentum and downward revisions, the Year-on-Year economic performance was well below expectations, with GDP contracting by 2.4% in Q2. What's even more disappointing is that, judging by the upward revisions for Q2 GDP growth over the past few years, the seasonal factor was better than expected. This implies that the current 2023 second quarter GDP data was the result of an improving seasonal factor and a worse-than-expected trend growth.

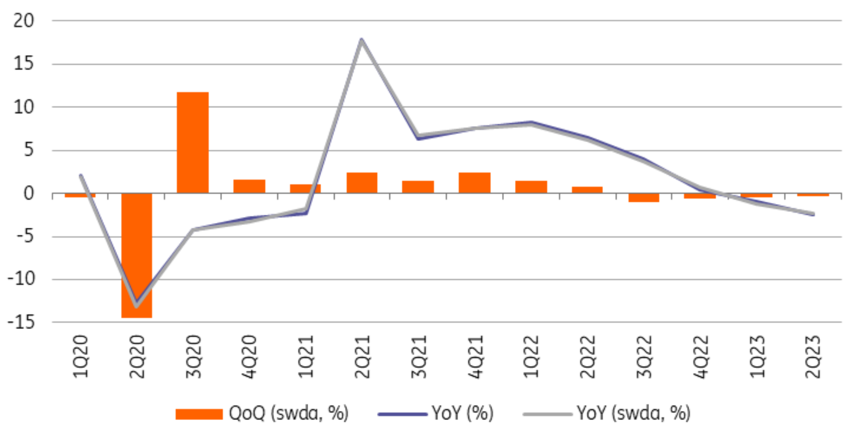
What's happened to agriculture?

As this was a preliminary release by the HCSO, we don't have detailed data yet and we'll be making a fulling assessment when we get those numbers on 1 September. However, industry and market services were the largest contributors to the decrease in economic performance, according to a press release from the Statistical Office. As for industry, this is hardly surprising given that industrial production volume was down by 6% in the second quarter, adjusted for calendar effects.

As for services, we have seen that the sector has managed to perform well in recent quarters, posting growing activity in the first quarter despite sky-high inflation. In the second quarter, reality seems to have caught up with this sector as well. The health sector was highlighted as the silver lining, meaning that the restructuring of the healthcare system and the rise of the private healthcare sector continue to support growth.

On the other hand, the HCSO barely registered a positive performance, as the statement only highlights that the "good" performance of agriculture reduced the decline in GDP. This means that the hopes attached to strong agricultural activity did not really materialise in the end, because there are better words to use than just 'good'.

Hungarian GDP growth



Source: HCSO, ING

With GDP volume falling by 1.7% in the first half of 2023, the government's full-year growth forecast of 1.5% seems utterly unrealistic given the year-to-date performance and still negative real wage growth. However, judging by the latest press release from the Ministry of Economic Development, issued shortly after the dismal growth data, the aim seems to be to avoid a full-year recession rather than to fight for the 1.5% GDP growth.

In our view, this is a very important and positive message, especially from a fiscal perspective, as it limits the risk of newly announced stimulus measures in order to support the unattainable 1.5% economic activity Speaking of measures, the 14 steps announced in this press release to strengthen the economy do not impose any additional burden on the budget, as all these measures had already been announced and these are in progress.

We're considering downgrading Hungary's full-year GDP outlook

Regarding our full-year growth forecast for 2023, we will make our new assessment after 1 September when the detailed GDP data will be published. Before seeing the second quarter figure, our pre-publication forecast for full-year growth in 2023 was around 0.2–0.4%, but we now see a significant chance that the Hungarian economy will not be able to grow in 2023. This is even though the economy will most likely perform better in the second half of the year. However, the hole dug in the year's first half looks too deep to climb out of quickly.

Author

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

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