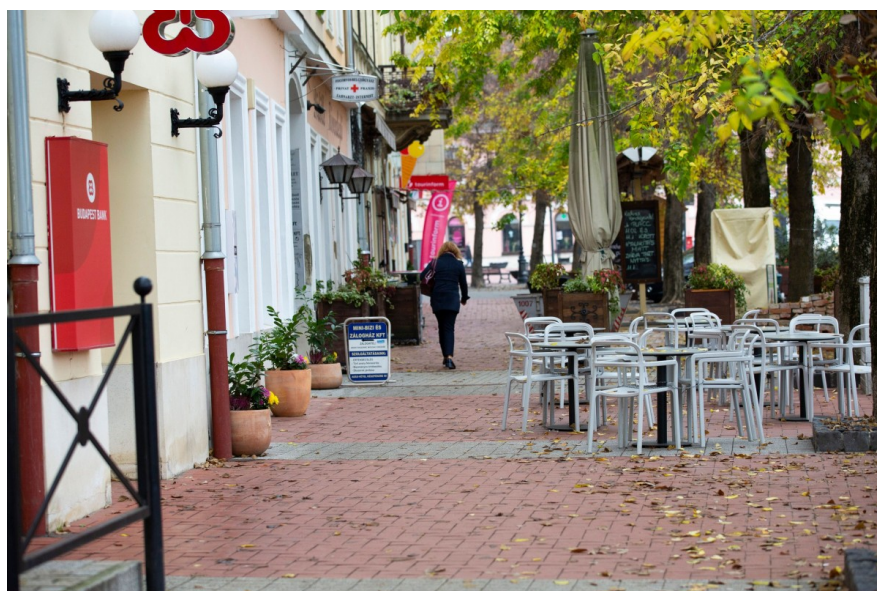


Technical recession confirmed in Hungary

The Hungarian economy has continued to stumble. The quarterly 0.7% drop in the third quarter was followed by a 0.4% fall in the last quarter of 2022, confirming our previous view that the economy was in a technical recession from the second half of last year. Thus, at this point, our outlook for 2023 remains unchanged



Hungary has fallen into a technical recession

-0.4%

GDP growth in 4Q (QoQ)

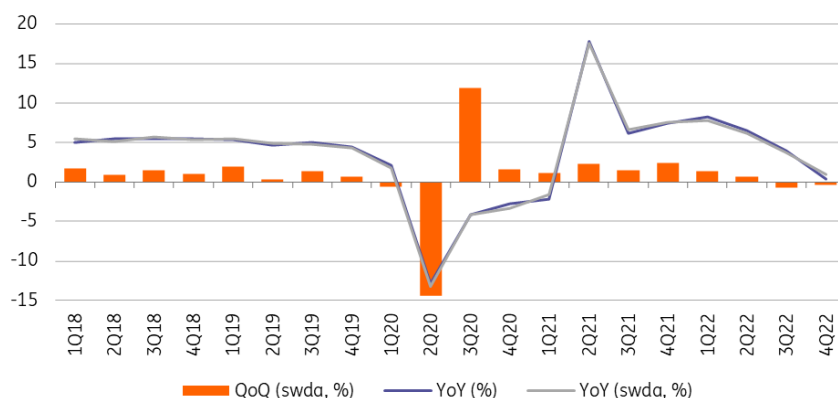
Consensus -1.1% / Previous -0.7%

Second leg down confirms technical recession

Hungarian GDP growth in the fourth quarter of 2022 came in at -0.4% on a quarterly basis, while the year-on-year (YoY) reading was 0.4%, matching ING's forecast. At the same time, the Hungarian Central Statistical Office (HCSO) carried out significant revisions on the third quarter GDP release, which was revised from -0.4% to -0.7% QoQ, indicating an even bigger drop in the volume of GDP than previously thought.

Due to the fact that this was a flash release by the HCSO, at this point we know very few details regarding the breakdown of what drove the weak performance and the slowdown in the year-on-year readings. In the press release, two sectors were highlighted as the biggest positive contributors: industry (mostly car manufacturing and electrical equipment production) and services (driven by real estate activity and transportation). On the other hand, agriculture was a major drag on growth according to the Statistical Office, which hardly comes as a surprise given last year's prolonged period of drought and supply-side issues (including energy woes).

Hungarian GDP growth



Source: HCSO, ING

Growth in 2022 was two-sided

With the fourth quarter data release, we now know the (preliminary) 2022 GDP growth number came in at 4.6% year-on-year. At a first glance, last year's growth might seem robust, signalling a healthy economy, but the reality is that 2022 was a tale of two halves. According to our estimates, the economy started last year on the right foot with a +2.5% carry-over effect from 2021 to 2022. This was boosted by a rebound in activity after the pandemic, coupled with extensive fiscal stimulus given April's election. The combined effect of these factors boosted the year-on-year GDP figures to 8.2% and 6.5% for the first and second quarters, respectively.

Nevertheless, the second half of 2022 paints an entirely different picture, with fiscal austerity measures being in place on top of the energy and cost of living crises. High energy costs fed through the entire economy paralysing activity in a range of sub-sectors, which took a toll on third- and fourth-quarter GDP. As both households and corporates were forced to cope with crippling energy prices, domestic economic activity markedly slowed down, hence the negative quarterly readings in the second half of 2022 and a slowdown close to stagnation in the yearly-based growth data.

Outlook for 2023 remains unchanged

As we have no high-frequency data releases yet for early 2023, we maintain our 0.7% GDP forecast for 2023 unchanged. But to achieve that, the Hungarian economy must produce significant growth within the year. As the economy ended last year on the wrong foot, the tides have changed compared to early 2022. According to our estimates, this year the economy must deal with a -0.5% carry-over effect. Nevertheless, the 0.7% full-year growth can be achieved. Currently, we see a realistic chance that GDP will shrink on a quarterly basis in the first quarter of

2023 on domestic demand, after which the economic recovery and catch-up to the pre-crisis GDP level can begin. This catch-up may take four to six quarters, as we only expect a shallow and short-lived recession. Favourable external developments, such as the Chinese reopening, the better-than-expected resiliency of the US and eurozone economies and alleviating energy price pressures have greatly improved the Hungarian economic outlook for 2023. As such, we see upside risks to our 2023 GDP growth forecast.

Authors

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Dávid Szónyi

Research Trainee

david.szonyi@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>.