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)

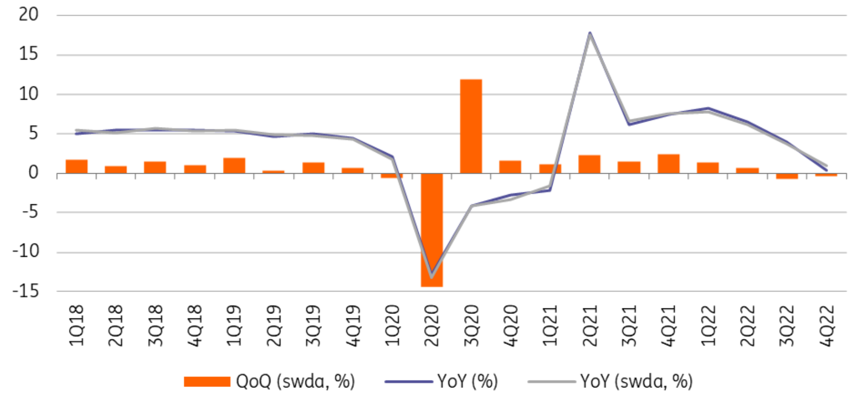
Consensus -1.1% / Previous -0.7%

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.

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