Technical recession continues in Hungary

Hungary once again posted a quarterly drop in GDP in the first quarter of 2023. Currently, we see a roughly 50-50 chance of the Hungarian economy emerging from the technical recession before the third quarter

-0.2%

GDP growth in 1Q (QoQ)

ING forecast -0.6% / Previous -0.6%

Better than expected

Real GDP has been shrinking since mid-2022

As widely expected, the technical recession in Hungary resumed in the first quarter of 2023 as the quarterly-based GDP growth posted a 0.2% contraction. This marks the third quarter of sequential contraction in the volume of gross domestic product with high uncertainty regarding the next quarter. According to the raw data, real GDP shrank by 0.9% year-on-year (YoY) roughly matching the market consensus.

In terms of quarterly GDP growth, the official -0.2% figure is better than expected. However, the

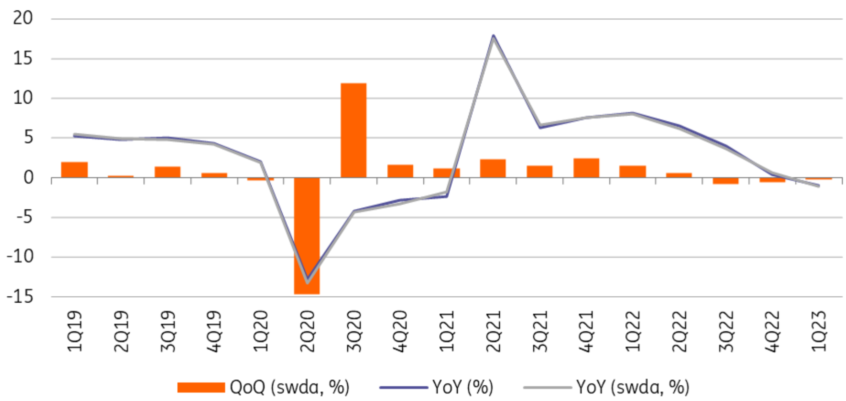
Hungarian Central Statistical Office (HCSO) has made negative revisions for previous quarters. When comparing the revised volume of real GDP based on the actual data coming from the first estimation, and the previous time series extended with the market consensus for the first quarter, then we can still consider the economic performance to be in line with market expectations.

As this was a preliminary release by the HCSO, we don't have detailed data yet. We will assess the factors contributing to the decline in real GDP once we have the complete picture on 1 June, when detailed data is released. However, the Statistical Office highlighted in its press release that the largest contributor to the decrease in economic performance was industry. This is hardly surprising given that industry posted 6-10% year-on-year declines in production volumes throughout the first quarter.

On the other hand, the positive performance of agriculture was also emphasised. However, we believe that the outperformance is more attributable to technical base effects rather than genuine economic performance. In the first quarter, we are dealing more with model estimates since the agricultural season typically begins in the summer. The positive contribution this time can be attributed to the comparison with last year's exceptionally poor performance, resulting in a low base effect.

A notable surprise is the reported increase in the performance of services, particularly in the healthcare sector. We have mixed feelings about this. While the positive contribution of services – likely driven by exports (including tourism) rather than domestic consumption – is good news, the HCSO's singling out of healthcare raises suspicions. In fact, this sector is not a fundamentally key one, suggesting that other significant areas within the services sector may not have achieved notable performance.

Hungarian GDP growth



Source: HCSO, ING

Going forward, the lack of monthly economic data for the second quarter limits our ability to predict whether the technical recession will continue or not. In this regard, the detailed release on 1 June might give us some clues. However, given sky-high inflation and the depletion of household savings, meaningful domestic consumption in the second quarter seems unlikely.

Furthermore, investment activity is rapidly collapsing due to the high interest rate environment, thus from a GDP contribution point of view, both components will likely drag on growth. The only silver lining could be net exports, however judging by the recent underperformance of industry we see little chance for an early rebound in the second quarter. In our view, judging by the data available now, it would be considered a positive surprise if the economy manages to avoid a quarterly downturn.

Currently, we see a roughly 50-50 chance of the Hungarian economy emerging from the technical recession before the third quarter. The initial data for April and the forthcoming details of first quarter GDP data from the HCSO will be crucial for our assessment. Even if the economy emerges from the technical recession in the second quarter, the government's 1.5% full-year GDP growth forecast still seems unlikely. However, we do not anticipate the government making substantial fiscal sacrifices to maintain the initial growth target, considering that the excessive deficit procedure (EDP) will be intensified starting next year, leaving no room for budgetary slippage.

Our current forecast for 2023 suggests a modest annual growth rate of 0.2%, followed by approximately 3% GDP expansion next year. However, in case the technical recession extends into the second quarter of this year, a downgrade to zero or into the negative territory may be unavoidable.

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