

# FLASH REPORT

2 June 2020

## Hungary's economy benefits from the less severe pandemic situation

- Hungary's GDP grew by 2.2% YoY in Q1 2020 (in non-adjusted terms), down from 4.5% in Q3. The second estimate was the same as the flash one. Hungary posted the fourth highest growth rate in the EU. The official figure showed -0.4% QoQ growth rate, while our in-house adjustment shows -1% (the QoQ growth rate strongly depends on how we handle the Q1 figure statistically – in our view, it should be seen as an outlier, due to an unexpected shock).
- Recession in 2020 will strongly depend on the duration and the stringency of the lockdown, determined mainly by the pandemic situation and authorities' decisions. These strongly determine (1) how big the decline in the economic activity will be and (b) how long this muted economic activity lasts. And the timing of restrictive measures' introduction determines how big part of the economic shock appears in Q1 and Q2.
- As the virus arrived in Hungary later than in Western Europe, the lockdown was introduced also with some delay (from epidemic point of view, Hungary introduced quarantine measures in time, before the pandemic could become widespread in the country). Due to the much better pandemic situation, the measures' stringency could be considered relatively soft. So the restrictions affected Q1 GDP data to a lesser degree than in other countries (e.g. Austria, Slovenia, Czech Republic). Furthermore, Google mobility data indicate that mobility in April (the peak of the pandemic) fell less than elsewhere in the CEE region. Google mobility data, the weekly number of housing transactions, and bookings on Szállás.hu (a website similar to booking.com) suggest that economic activity hit rock bottom in April. If we use the rule of thumb (that the plunge in economic activity is roughly 40-50% of the drop in mobility), the QoQ decline in Q2 can be around 9% in Hungary. It would be line with our baseline -2.8% GDP growth forecast for 2020.
- In Q1, households' consumption expenditure was the engine of the growth: it expanded by 5% YoY and 3.5% QoQ (annualized, according to our in-house adjustment). The soaring capital formation of the past two years has disappeared and the YoY change in investment sank into negative territory. In our view, most of this did not happen because of the pandemic; the QoQ change in investment had turned negative in Q4 2019.
- Many factors suggest that the rebound after the lockdown can be fast:
  - The pandemic's effect on the labour market was not so strong. In March and April, around 120,000 people lost their jobs (around 3% of the total employment). This is not a small amount, but very far from the horrible US figure. Furthermore, around 140,000 people entered the 'kurzarbeit' (short-time work) scheme. So, we think the second-rounds effects that may come from the labour market can be limited.
  - As the pandemic was not so severe in Hungary, it does not appear to have changed consumers' preferences (willingness to go hotels, restaurants, etc.) much. According to Szállás.hu's figures, hotel bookings for June reached their 'normal level'. The government supports domestic holidays by significantly lifting the amount available for holiday vouchers ('SZÉP card', a cafeteria plan element). In Hungary, domestic nights' share in total tourist nights is around 50%, so the substitution of the foreign visitors with domestic guests seems to be easier than in other countries (e.g. Croatia, Austria). After the collapse of business and consumer confidence indices in April, there was a rebound in May, especially in the 'expectation' subcomponents.
  - We note that our baseline forecast assumes that the rebound will be quick also in Hungary's export markets. Roughly 30% of Hungary's exports go to countries that were less affected by the pandemic (CEE, SEE, Baltic states, Malta, Cyprus, Greece, Russia) and other 38% to countries that handle the outbreak well (Austria, Germany, Denmark, Norway, Finland). In these countries, similarly to Hungary, the labour market effects have been limited yet, which can pave the way for a quick rebound. This is why we assumed 'only' 8% decline in exports this year.

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- In 2020, households' consumption expenditure may become the main driver of growth. The moratorium on loan repayments gives households extra financial resource, and the damages on the labour market can be limited and/or short-lived. As investment rate reached a very high level last year, and signs of the slowdown have already appeared before the crisis, we expect significant contraction in fixed capital formation. Net exports may also have a negative growth contribution because of the weak export demand, while import demand may remain stronger due to the relatively strong domestic demand in Hungary. We should also note that Hungary has a significant surplus on external trade in services, but we expect that international journeys will remain much more subdued than domestic trips this year, so the huge services trade surplus may decline considerably.
- We emphasize that our baseline scenario does not assume a second wave of the pandemic, and due to the abovementioned reasons, we do not expect significant second-round effects. With these assumptions, GDP growth can be around 4.5% in 2021. Nevertheless, very importantly, if a second wave of the pandemic appears this autumn, it will affect Hungary's 2021 GDP growth stronger than the 2020 figure (because the last quarter of the year has only ¼ weight in the 2020 GDP figure). A second wave of the pandemic would also increase the possibility of stronger second-round effects (more limited policy tools, higher probability of permanent shifts in consumer preference).

## Main macro forecasts

| Key economic indicators                        |        |        |        |        |        |        | OTP           |               | Focus Economics   |
|--|--------|--------|--------|--------|--------|--------|---------------|---------------|-------------------|
|  | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019          | 2020F         | 2020.05.<br>2020F |
| Nominal GDP (at current prices, bn HUF)        | 30 290 | 32 694 | 34 785 | 35 896 | 38 835 | 42 662 | <b>46 787</b> | <b>47 634</b> | <b>46 200</b>     |
| Real GDP change                                | 2.0%   | 4.2%   | 3.8%   | 2.2%   | 4.3%   | 5.1%   | <b>4.9%</b>   | <b>-2.8%</b>  | <b>-4.3%</b>      |
| Household final consumption                    | 0.1%   | 2.1%   | 3.7%   | 4.2%   | 4.2%   | 4.0%   | <b>4.4%</b>   | <b>0.4%</b>   | <b>-3.7%</b>      |
| Household consumption expenditure              | 0.0%   | 2.5%   | 3.7%   | 4.9%   | 4.4%   | 4.9%   | <b>5.0%</b>   | <b>0.3%</b>   |                   |
| Collective consumption                         | 6.0%   | 9.8%   | 1.1%   | 0.3%   | 3.2%   | 2.0%   | <b>2.0%</b>   | <b>-1.1%</b>  | <b>3.5%</b>       |
| Gross fixed capital formation                  | 9.8%   | 12.3%  | 4.8%   | -10.6% | 18.7%  | 17.1%  | <b>15.3%</b>  | <b>-9.0%</b>  | <b>-8.5%</b>      |
| Exports  | 4.1%   | 9.2%   | 7.4%   | 3.8%   | 6.9%   | 4.3%   | <b>6.0%</b>   | <b>-8.2%</b>  | <b>3.1%</b>       |
| Imports  | 4.3%   | 11.0%  | 6.0%   | 3.4%   | 8.2%   | 6.8%   | <b>6.9%</b>   | <b>-7.0%</b>  | <b>3.5%</b>       |
| in percent of GDP                              | -2.6%  | -2.7%  | -2.0%  | -1.8%  | -2.5%  | -2.1%  | <b>-2.0%</b>  | <b>-4.2%</b>  | <b>-4.9%</b>      |
| General government debt (in percent of GDP)    | 77.4%  | 76.8%  | 76.2%  | 75.5%  | 72.9%  | 70.2%  | <b>66.4%</b>  | <b>71.5%</b>  | <b>74.2%</b>      |
| Current account (EUR bn)*                      | 3.6    | 1.3    | 2.6    | 5.2    | 2.9    | 0.0    | <b>-1.2</b>   | <b>-2.0</b>   | <b>-2.1</b>       |
| in percent of GDP                              | 3.5%   | 1.2%   | 2.4%   | 4.5%   | 2.3%   | 0.0%   | <b>-0.8%</b>  | <b>-1.5%</b>  | <b>-1.6%</b>      |
| Gross nominal wages**                          | 4.1%   | 3.6%   | 4.4%   | 6.5%   | 12.9%  | 10.7%  | <b>10.5%</b>  | <b>4.9%</b>   |                   |
| Gross real wages                               | 2.3%   | 3.9%   | 4.5%   | 6.1%   | 10.3%  | 7.7%   | <b>6.9%</b>   | <b>2.1%</b>   |                   |
| Employment (annual change)                     | 1.7%   | 5.3%   | 2.7%   | 3.4%   | 1.6%   | 1.1%   | <b>0.6%</b>   | <b>-1.8%</b>  |                   |
| Employment domestic concept w/o public workers | 0.5%   | 3.4%   | 1.7%   | 3.1%   | 3.1%   | 2.4%   | <b>0.9%</b>   | <b>-2.1%</b>  |                   |
| Unemployment rate (annual average)             | 10.2%  | 7.7%   | 6.8%   | 5.1%   | 4.2%   | 3.7%   | <b>3.6%</b>   | <b>4.6%</b>   | <b>6.6%</b>       |
| Inflation (annual average)                     | 1.7%   | -0.2%  | -0.1%  | 0.4%   | 2.4%   | 2.8%   | <b>3.4%</b>   | <b>2.8%</b>   | <b>3.0%</b>       |
| Base rate (end of year, 3M BUBOR)              | 3.00%  | 2.10%  | 1.35%  | 0.41%  | 0.03%  | 0.13%  | <b>0.16%</b>  | <b>0.50%</b>  | <b>1.00%</b>      |
| 1Y Treasury Bill (average)                     | 4.11%  | 2.28%  | 1.17%  | 0.77%  | 0.09%  | 0.25%  | <b>0.15%</b>  | <b>0.66%</b>  |                   |
| Real interest rate (average, ex post)          | 2.3%   | 2.5%   | 1.2%   | 0.4%   | -2.2%  | -2.5%  | <b>-3.1%</b>  | <b>-2.1%</b>  |                   |
| EUR/HUF exchange rate (average)                | 297.0  | 308.6  | 309.9  | 311.5  | 309.3  | 318.9  | <b>325.4</b>  | <b>351.4</b>  | <b>351.0</b>      |
| EUR/HUF exchange rate (end of year)            | 296.9  | 314.9  | 313.1  | 311.0  | 310.1  | 321.5  | <b>330.5</b>  | <b>350.0</b>  | <b>352.0</b>      |

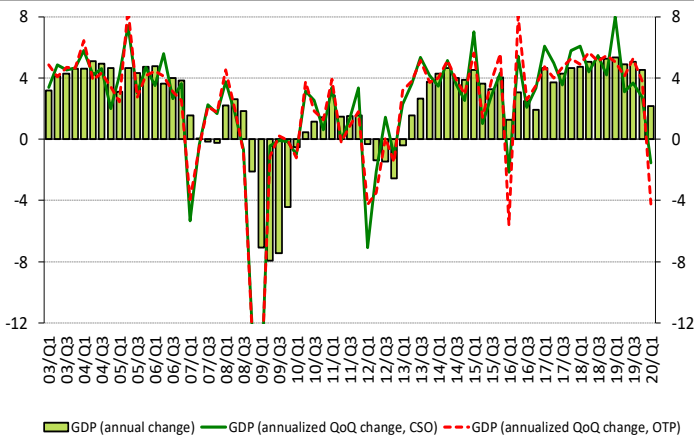
Sources: CSO, MNB, OTP Bank

\*: Official data of balance of payments (excluding net errors and omissions)

\*\* : Total wages including accrual based salaries in governmental sector.

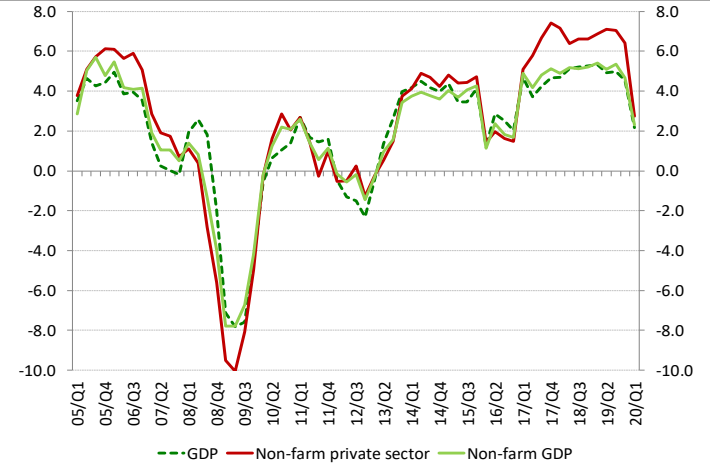
In the case of private sector wages we calculated with whitening effect filtered wages and we adjusted the changeable seasonality of the bonus

**Chart 1: Summary chart of GDP growth**  
(annual and annualized QoQ growth rates, %)



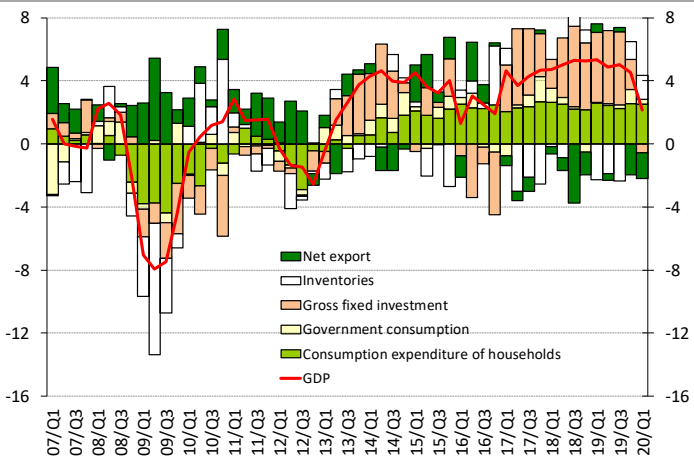
Sources: KSH, OTP Research

**Chart 2: Different indicators of economic activity**  
(annual changes, %)



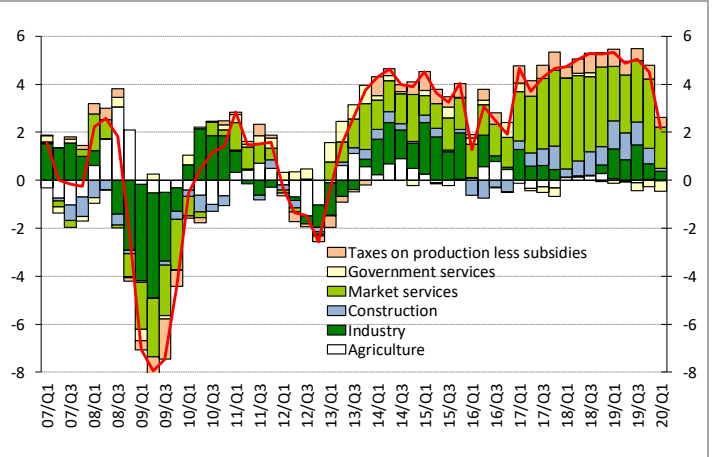
Sources: KSH, OTP Research

**Chart 3: Decomposition of GDP growth by expenditure-side items**  
(quarterly data, %)



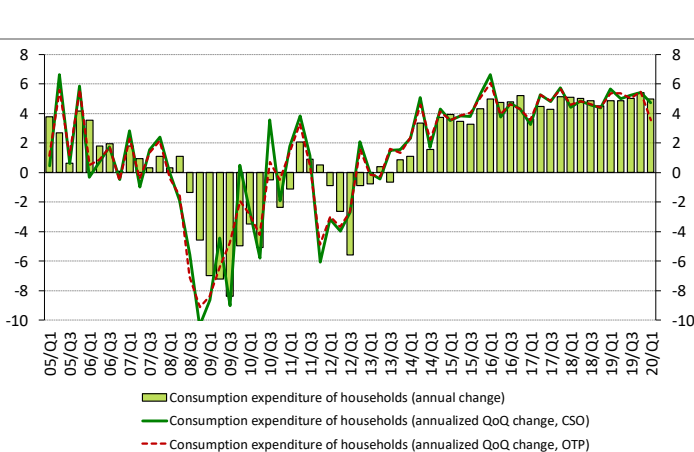
Sources: KSH, OTP Research

**Chart 4: Decomposition of GDP growth by production-side items**  
(quarterly data, %)



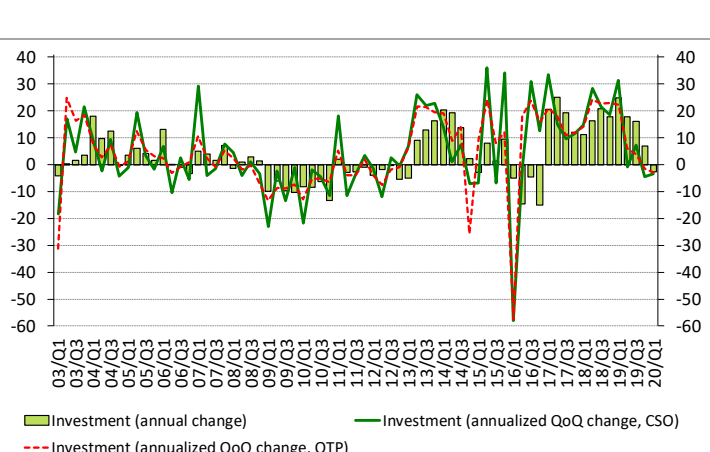
Sources: KSH, OTP Research

**Chart 5: Households' consumption expenditures**



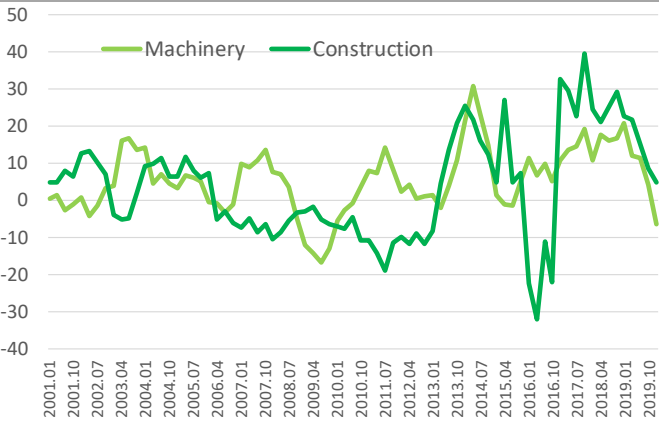
Sources: KSH, OTP Research

**Chart 6: Fixed capital formation**



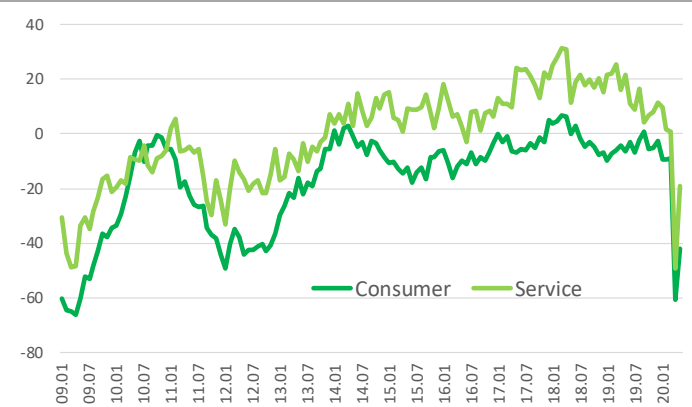
Sources: KSH, OTP Research

**Chart 7: Machinery and construction investment**  
(annual changes, %)



Sources: KSH, OTP Research

**Chart 8: Service\* and consumer confidence\*\***  
(balance point)

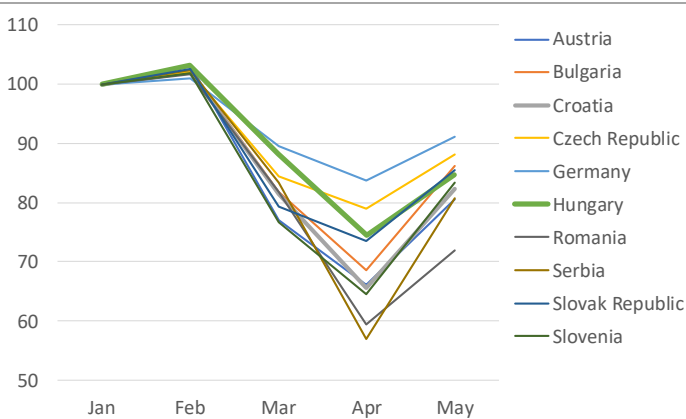


Sources: EC, OTP Research

\*: Expectation of the demand over the next three months subcomponent

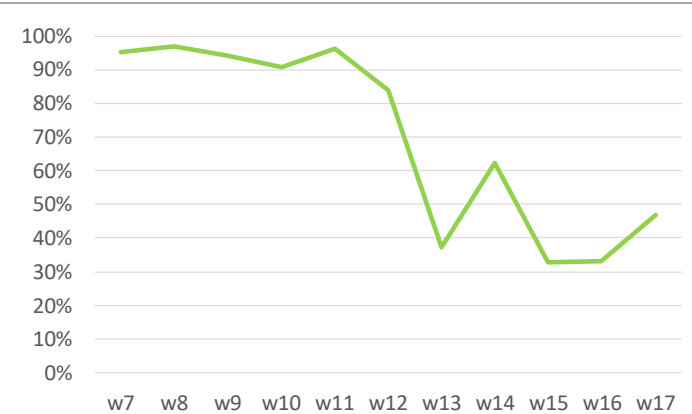
\*\* : General economic situation over next twelve months subcomponent

**Chart 9: Google mobility data in the region**  
(2020. January=100)



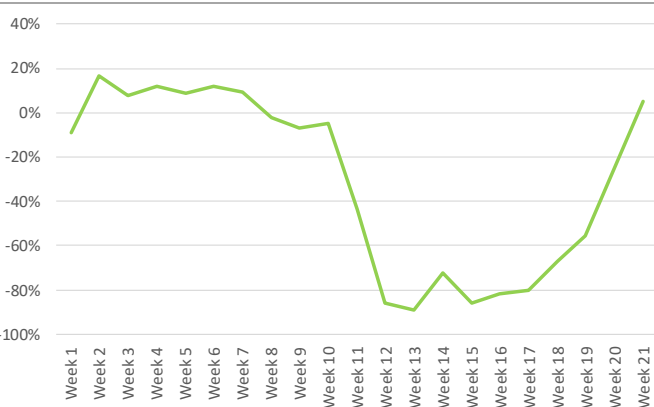
Sources: Google, OTP Research

**Chart 10: Weekly housing transactions**  
(in % of same week of the previous year)



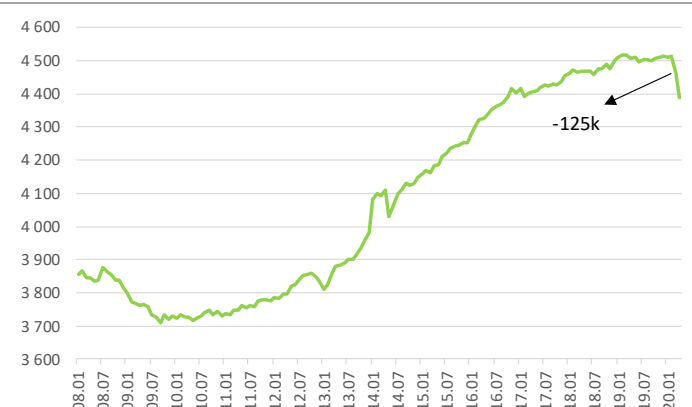
Sources: Duna House, OTP Research

**Chart 11: Bookings on Szállás.hu**  
(as % of same week of last year)



Sources: Szállás.hu, OTP Research

**Chart 12: Employment**  
(ths. people)



Sources: KSH, OTP Research

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