

Main Economic & Financial Indicators: Hungary

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Overview	Consumption
<p>The Hungarian economic situation has deteriorated further, as faltering external demand added extra downward pressure on weak domestic demand which suffered due to rising taxes and a worsening labour market. As a result, concerns over a prolonged recession are growing substantially.</p> <p>The government debt for 2012 has shrunk somewhat from 81.4% of GDP to 79% but this is mainly attributed to the appreciation of the currency as a nearly half of government debt is denominated in foreign currencies. Despite this reduction in the debt burden, total debt has hardly been reduced, it remains around 80% of GDP as a prolonged recession reduced a size of GDP, the denominator, and the unstable currency and higher debt service costs increased the amount of debt, the numerator.</p> <p>Since the end of 2011, the Hungarian government had been trying to secure a flexible credit line from the IMF in order to stabilise its currency and bring down the county's funding costs. However, negotiations broke down at the beginning of February implying that its funding environment will remain volatile. Although the government managed to raise \$3.25bn from the international capital markets, selling 5 and 10 years bonds, in mid February for the first time in two years, it had to pay slightly higher costs of 4.2% and 5.4% respectively than in previous auctions. Despite investor risk appetite returning somewhat, markets remains sceptical about the government's erratic and populist policy stance. Besides this, low growth potential and rising debt service costs mean that the debt reduction process by the government would become more challenging.</p>	<p>Retail sales (working-day adjusted) in January fell by 4.1%, negative growth for the tenth consecutive month on the back of disappointing sales in both food and non-food items. The situation surrounding consumers remains weak on the back of falling real wages, shrinking bank lending coupled with a stubbornly high unemployment rate at above 10%. However, we can see some signs of an improvement in consumer sentiment as prospects for the economy and the labour market have picked up. While receding inflationary pressure has helped to improve consumer sentiment somewhat, momentum in real economic activity remains rather weak. With this in mind, the sustainability of this trend could be called into question.</p> <div data-bbox="858 716 1449 1097"> <p>Figure: Retail trade, Consumer Confidence (current and prospects) (Balance)</p> <p>Source: BTMU based on Macrobond</p> </div>
GDP	Prices/Monetary policy
<p>In Q4, real GDP contracted by 2.7% y/y (-0.9q/q) and the overall economy shrunk by 1.7% in 2012. While the pace of the slowdown in private consumption has eased somewhat, from -3.7% y/y to -0.9% y/y during Q4, the fall in fixed capital formation widened substantially, decreasing by 5.6% over the year. Imports declined further, reflecting weak domestic demand but exports also shrunk given the recession in the Eurozone. Thus the contribution to growth by net exports turned negative for the first time since the beginning of 2008.</p> <div data-bbox="156 1451 758 1792"> <p>Figure: Real GDP and its components</p> <p>Source: BTMU based on Macrobond</p> </div>	<p>The consumer price index rose by 2.8% y/y in February, down from the previous month's 3.7% y/y, as the impact of last January's VAT increase dropped out of official statistics coupled with a decelerating in food price increases. Thus the inflation rate has met the central bank's target rate of 3% ($\pm 1\%$) for the two months in a row.</p> <p>At the monetary policy meeting held on 26th February, the central bank decided to cut the policy rate by 0.25% points to 5.25%. Falling Inflationary pressure on the back of weaker domestic demand allowed the bank to cut the policy rate further.</p> <p>On 1 March, Prime Minister Victor Orbán appointed Economic Minister Gyorgy Matolcsy to head Hungary's central bank. He is a close ally of Mr Orbán and as Economic Minister he introduced various controversial populist measures, such as crisis taxes targeting banks. With his appointment as the governor, the independence of the central bank is seen as at risk.</p>
Output	Balance of payments
<p>Industrial production (working-day adjusted) in January fell by 1.4% y/y, with negative growth continuing since last September. Meanwhile, February's Purchasing Managers Index (PMI) reading for the manufacturing sector was 54.0, down from the previous month's 55.9 but staying above the 50 mark which separates expansion from contraction. Positive news in Germany where nearly a quarter of Hungarian exports are destined seems to be encouraging for business sentiment although growing uncertainties over economic prospects means sentiment could change relatively easily.</p>	<p>In Q3, Hungary recorded current account surplus at \$1.0bn, substantially up from \$439mn in the same period of last year. This was due to a fall in imports reflecting weakening domestic demand. The deficit in terms of the income account rose, however, given the growing debt service costs by corporate and households together with dividend repatriation. In terms of the financial account, the deficit widened to \$2.6bn from \$1.2bn in the previous period. Capital outflows continued as businesses worried about the government's erratic economic policies as well as the prolonged recession.</p> <p>During 2012, the forint exchange rate remained relatively stable supported by ample liquidity in the international financial markets and the improved balance of payment position. However, given the breakdown of the negotiations with the IMF coupled with growing prospects of monetary easing, depreciation pressure on the forint is on the rise.</p>

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1. Annual and quarterly data

		2010	2011	2012	11/Q4	12/Q1	12/Q2	12/Q3	12/Q4
GDP (at current prices)	(US\$ bn)	128.2	115.0	128.0	34.4	28.1	30.4	32.0	35.3
Real GDP growth	(%, y/y)	1.3	1.6	-1.7	1.3	-0.6	-1.7	-1.7	-2.7
(Private consumption)	(%, y/y)	-3.1	0.5	-1.3	1.0	-0.3	-0.5	-3.7	-0.9
(Gross fixed capital formation)	(%, y/y)	-9.1	-3.5	-3.7	-2.4	-4.6	-3.0	-1.7	-5.6
Industrial production (exc.construction)	(%, y/y)	10.6	5.6	-1.7	3.1	0.1	-0.6	-0.8	-5.4
Retail sales*	(%, y/y)	-2.3	0.2	-2.0	0.8	0.6	-2.3	-2.8	-3.5
Bank credits to the private sector	(%, y/y)	4.1	-0.1	-13.2	-0.1	-1.2	-5.4	-11.9	-13.2
Consumer price index	(%, y/y)	4.9	3.9	5.7	4.1	5.6	5.5	6.1	5.4
Gross average earnings growth	(%, y/y)	1.4	5.2	4.7	7.4	4.4	4.3	4.9	5.0
Unemployment rate	(%)	11.1	11.0	10.9	10.7	11.5	11.2	10.4	10.6
Trade balance	(US\$ mn)	7,278	9,880	8,797	1,568	1,690	1,932	1,759	1,442
Exports	(US\$ mn)	94,413	111,946	103,397	20,286	19,915	20,125	19,948	20,103
Export growth	(%, y/y)	13.9	18.6	-7.6	3.5	-1.1	1.9	0.8	-0.9
Imports	(US\$ mn)	87,135	102,066	94,601	18,718	18,225	18,193	18,189	18,661
Import growth	(%, y/y)	12.3	17.1	-7.3	3.8	1.5	0.7	0.0	-0.3
Current account	(US\$ mn)	1,386	1,181	-	36	-21	607	1003	-
Capital and financial balances	(US\$ mn)	4,741	5,900	-	-1,543	-2,736	-1,223	-2,562	-
Foreign direct investment	(US\$ mn)	2,258	4,273	-	5,252	5,135	1,454	1,469	-
Foreign reserves	(US\$ mn)	44,849	48,681	44,506	48,681	46,119	44,599	44,584	44,506
External debt	(US\$ mn)	185,491	171,289	-	171,289	174,257	166,600	164,202	-
Stock price index		22,487	20,502	18,060	17,066	18,678	17,280	17,767	18,508
Short-term int. rates (Interbank BUBOR 3m)		5.50	6.19	6.98	6.54	7.42	7.21	7.06	6.24
EU Harmonised Gov. 10y bond yields		7.28	7.64	7.89	8.46	8.95	8.47	7.40	6.75
Forint/USD		208.17	201.18	225.11	225.68	226.43	229.24	226.30	218.57
Forint/Euro		275.38	279.36	289.30	303.52	296.85	293.93	283.05	283.46
Forint/GBP		321.33	322.20	356.61	354.59	355.51	362.75	357.40	350.89

2. Monthly data

		12/07	12/08	12/09	12/10	12/11	12/12	13/01	13/02
Industrial production (exc.construction)	(%, y/y)	0.9	0.2	-3.5	-1.4	-7.1	-7.6	-1.40	-
Retail sales*	(%, y/y)	-2.6	-2.0	-3.0	-3.7	-4.1	-2.1	-4.1	-
Bank credits to the private sector	(%, y/y)	-10.1	-8.8	-11.9	-13.1	-14.8	-13.2	-9.2	-
Consumer price index	(%, y/y)	5.8	6.0	6.6	6.0	5.2	5.0	3.7	2.8
Gross average earnings growth	(%, y/y)	7.0	3.9	3.7	4.7	5.4	4.9	-	-
Unemployment rate	(%)	10.5	10.4	10.4	10.5	10.6	10.7	11.2	-
Trade balance	(US\$ mn)	522	761	940	808	878	189	432	-
Exports	(US\$ mn)	7,942	8,353	8,840	9,544	9,493	7,167	8,776	-
Export growth	(%, y/y)	-10.4	-10.2	-8.0	-0.8	-5.2	-7.1	8.2	-
Imports	(US\$ mn)	7,420	7,592	7,899	8,735	8,615	6,979	8,344	-
Import growth	(%, y/y)	-10.4	-12.2	-8.2	-1.0	-5.2	-4.8	9.1	-
Stock price index		17,264	17,638	18,470	19,036	18,516	17,920	19,076	18,991
Short-term int. rates (Interbank BUBOR 3m)		7.19	7.12	6.84	6.56	6.24	5.89	5.69	5.44
EU Harmonised Gov. 10y bond yields		7.56	7.36	7.28	6.94	6.87	6.44	6.23	6.29
Forint/USD		232.90	224.78	220.79	217.28	220.02	218.45	220.95	219.09
Forint/Euro		286.28	278.93	284.22	282.09	282.26	286.21	293.94	292.73
Forint/GBP		363.04	353.40	355.80	349.37	351.13	352.29	352.82	339.03

Source: Macrobond, Hungarian National Bank, IMF etc.

*Retail sales: real growth, working-day adjusted. Unemployment rate: three months moving average. External trade: customs clearance basis

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