Bank of Tokyo-Mitsubishi UFJ

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Main Economic & Financial Indicators: Hungary

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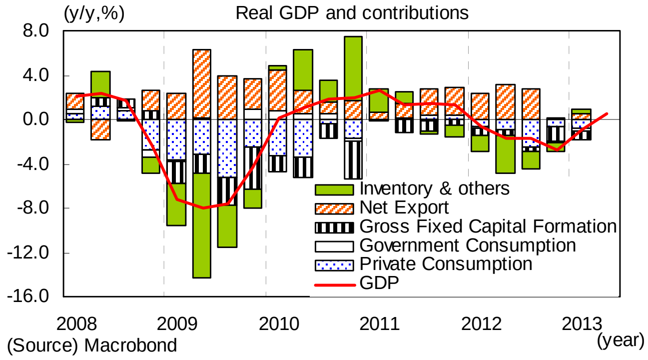
Overview

The Hungarian economy is showing some signs of recovery. After five consecutive quarters of contraction, real GDP growth in Q2 turned positive, up by 0.5% y/y. Detailed breakdown of this figure from the expenditure side has not been released yet, however, more frequent economic indicators suggest that external demand was one of the main factors behind the overall growth given the recent growth in demand from Germany, Hungary's biggest trade partner. That said, a strong recovery in external demand can hardly be expected as recovery in Germany and other Euro area countries is likely to be gradual.

In terms of domestic demand, although it appears to be showing a sign of bottoming-out, it remains weak. Consumer confidence is improving from very low level reflecting some improvements in unemployment and the recent low inflation. However, downside risks remains as tight credit conditions and the government's austerity measures continue. Investment in the corporate sector remains depressed given the heavy tax burden and a decline in bank lending. The Central Bank of Hungary has been easing its monetary policy mainly by cutting its policy rate. However, the effectiveness of rate cuts is fairly limited as banks' tight lending policies are likely to continue for some time yet as their profits have been squeezed by the imposition of taxes and an increase in bad FX loans reflecting forint depreciation. Moreover, the easing cycle is likely to come to an end in the near term as concerns over capital flight from emerging economies have been increasing amid the rising expectations of the US Federal Reserve scaling back its QE programme. In light of these circumstances, domestic demand is more likely to remain weak. Thus sustainable economic recovery in Hungary is not expected for a while.

GDP

Real GDP in Q2 grew by 0.5% y/y (flash estimate) after five quarters of negative growth. Detailed breakdown of this figure has not yet been released, but the Hungarian Statistics Office suggested that industry, agriculture and construction contributed to overall growth. Growth in the agricultural sector was elevated thanks to the previous year's low base when the harvest was dampened by bad weather. Meanwhile, the construction sector was boosted by the government's infrastructure projects.



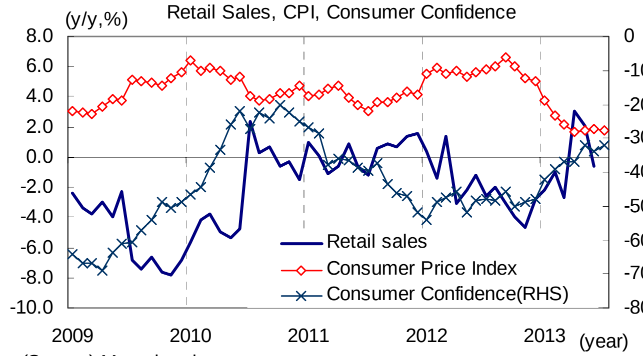
(Source) Macrobond

Output

Industrial production (flash estimates) in June fell by 0.6% y/y. July's Purchasing Managers Index (PMI) for the manufacturing sector came in at 49.0, down from the previous month's reading of 50.8 and below the 50 mark which separates expansion from contraction. A breakdown of this figure suggests that the pace of increase in output and new order slowed down while employment showed some improvement but remained below 50. Although the PMI reading for the manufacturing sector in the euro area in July recovered to above the 50 mark for the first time in two years, it is likely that the recovery in the single currency zone will be slow suggesting that it will take some time for the Hungary's manufacturing sector to see a sustainable recovery.

Consumption

Retail sales (working-day adjusted) in June fell by 0.6%, after two consecutive months of positive growth. Consumer confidence has been improving from a low level on the back of some improvement in unemployment figures and the recent low inflation. That said, household's budgets are likely to remain tight. Although the unemployment rate in May stood at 10.3% down from 10.9% a year earlier, it is still at an elevated level while bank lending continues to fall.



(Source) Macrobond

Prices/Monetary policy

The consumer price index rose by 1.8% y/y in July, down from 1.9% y/y in June, remaining below the central bank's inflation target range of 2~4% for four month in a row as food price inflation eased from 4.1% y/y in June to 2.8% y/y.

At the monetary policy meeting held on July 23rd, the central bank decided to cut the policy rate by 0.25% points to 4.0%. This was the twelfth rate cut in the last 12 months. Gyorgy Matolicsy , the governor, said after the meeting that the bank may change the pace or extent of policy easing over the coming months given the volatile conditions in financial markets reflecting rising expectations that the US Fed will scale down its monetary easing programme.

Budget deficit

At the end of June, the EU lifted the Excessive Deficit Procedure (EDP) which was applied to Hungary as the country's deficit level is likely to be less than 3% of GDP for 2013 onwards after the government announced additional deficit reduction measures through increases in the financial transaction and communication tax. The country has been under the EDP since 2004 when its budget deficit rose significantly higher than the 3% of GDP threshold. However, the government's deficit cutting measures so far, such as nationalising private pension schemes and tax increases for example, lack fundamental structural overhaul to the government's expenditure to reduce the deficit sustainably. Moreover, the country's budget deficit is highly likely to breach the 3% of GDP threshold again as the government's spending is expected to increase in the run-up to the parliamentary election in 2014.

External debt

Hungary completed the repayment of all its outstanding debt from the IMF loan received in 2008, seven months ahead of schedule. Negotiations with the IMF for a new precautionary credit line were suspended since January over disagreements on numerous issues including concerns over the independence of the central bank. The early repayment of the IMF loan together with the exit from the EU's EDP seems to have some political significance ahead of the 2014 parliamentary elections as it will likely remove constraints on the government's economic and budget policy to some extent. However, this will now make the country more reliant on borrowing from the capital markets with much higher interest rates and associated financial risks.

Main Economic & Financial Indicators: Hungary

1. Annual and quarterly data

		2010	2011	2012	12/Q2	12/Q3	12/Q4	13/Q1	13/Q2
GDP (at current prices)	(US$ bn)	127.8	138.6	125.5	30.4	31.9	35.3	28.7	-
Real GDP growth	(%, y/y)	1.3	1.6	-1.7	-1.7	-1.7	-2.7	-0.9	0.5
(Private consumption)	(%, y/y)	-3.1	0.5	-1.3	-0.5	-3.7	-0.9	-0.6	-
(Gross fixed capital formation)	(%, y/y)	-9.1	-3.5	-3.7	-3.0	-1.7	-5.7	-5.6	-
Industrial production (exc.construction)	(%, y/y)	10.6	5.8	-1.7	-0.8	-0.9	-5.5	-3.8	0.7
Retail sales*	(%, y/y)	-2.3	0.3	-2.1	-2.1	-2.5	-3.8	-2.0	1.6
Bank credits to the private sector	(%, y/y)	4.1	-0.1	-13.2	-5.4	-11.9	-13.2	-6.2	-5.9
Consumer price index	(%, y/y)	4.9	3.9	5.7	5.5	6.1	5.4	2.9	1.8
Gross average earnings growth	(%, y/y)	1.4	5.2	4.7	4.3	4.9	5.0	2.9	-
Unemployment rate	(%)	11.2	11.0	10.9	10.9	10.4	10.8	11.5	-
Trade balance	(US$ mn)	7,280	9,834	8,758	2,484	2,200	1,871	2,335	2,532
Exports	(US$ mn)	94,584	111,056	102,988	25,888	24,962	26,010	26,231	26,777
Export growth	(%, y/y)	15.3	17.4	-7.3	-9.0	-10.6	-4.5	0.4	3.7
Imports	(US$ mn)	87,304	101,222	94,229	23,404	22,762	24,139	23,895	24,245
Import growth	(%, y/y)	13.7	15.9	-6.9	-10.1	-11.2	-3.8	-0.2	3.7
Current account	(US$ mn)	1,410	1,123	2,190	731	1,113	385	725	-
Capital and financial balances	(US$ mn)	4,650	6,932	-7,369	-1,313	-2,508	-761	1,473	-
Foreign direct investment	(US$ mn)	2,179	5,200	13,004	1,398	1,744	5,006	848	-
Foreign reserves	(US$ mn)	43,147	45,393	41,891	38,995	40,486	41,891	43,155	43,811
External debt	(US$ mn)	185,498	171,807	161,015	169,048	160,526	161,015	162,227	-
Stock price index		22,487	20,502	18,060	17,280	17,767	18,508	18,828	18,625
Short-term int. rates (Interbank BUBOR 3m, %)		5.5	6.2	7.0	7.2	7.1	6.2	5.4	4.6
EU Harmonised Gov. 10y bond yields (%)		7.3	7.6	7.9	8.5	7.4	6.8	6.3	5.6
Forint/USD		208.2	201.2	225.1	229.2	226.3	218.6	224.6	226.5
Forint/Euro		275.4	279.4	289.3	293.9	283.0	283.5	296.6	295.7
Forint/GBP		321.3	322.2	356.6	362.7	357.4	350.9	348.5	347.7

2. Monthly data

		12/12	13/01	13/02	13/03	13/04	13/05	13/06	13/07
Industrial production (exc.construction)	(%, y/y)	-7.3	-1.8	-6.0	-3.6	4.9	-2.1	-0.6	-
Retail sales*	(%, y/y)	-2.7	-2.3	-1.1	-2.7	3.1	2.2	-0.6	-
Bank credits to the private sector	(%, y/y)	-13.2	-9.2	-6.2	-6.2	-6.4	-9.5	-5.9	-
Consumer price index	(%, y/y)	5.0	3.7	2.8	2.2	1.7	1.8	1.9	1.8
Gross average earnings growth	(%, y/y)	4.9	2.8	2.8	3.2	4.5	3.0	-	-
Unemployment rate	(%)	11.2	11.6	11.8	11.0	10.5	10.3	-	-
Trade balance	(US$ mn)	191	438	853	1,030	931	831	771	-
Exports	(US$ mn)	7,068	8,552	8,773	8,894	8,968	8,974	8,835	-
Export growth	(%, y/y)	-9.7	6.4	-0.9	-4.3	11.2	-0.6	0.6	-
Imports	(US$ mn)	6,877	8,114	7,920	7,863	8,037	8,143	8,064	-
Import growth	(%, y/y)	-7.5	7.1	0.5	-7.7	7.3	0.6	3.2	-
Stock price index		17,920	19,076	18,991	18,401	18,042	18,796	19,069	18,864
Short-term int. rates (Interbank BUBOR 3m, %)		5.9	5.7	5.4	5.1	4.8	4.5	4.4	4.1
EU Harmonised Gov. 10y bond yields (%)		6.4	6.2	6.3	6.4	5.7	5.1	6.0	-
Forint/USD		218.5	220.9	219.1	233.8	229.4	225.5	224.4	225.5
Forint/Euro		286.2	293.9	292.7	303.1	298.9	292.7	295.7	294.9
Forint/GBP		352.3	352.8	339.0	352.7	351.2	344.8	347.3	342.2

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