

Main Economic & Financial Indicators Hungary

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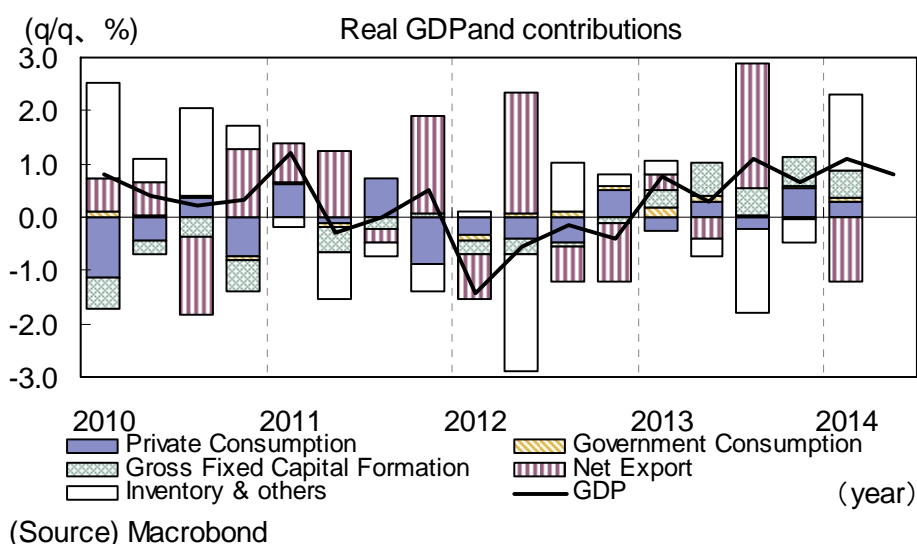
Overview

The Hungarian economy has maintained its recovery momentum which started in the latter part of 2013. While exports remain the main driver, fixed capital formation has also shown steady growth, supported in part by the Funding for Growth Scheme which encourages lending to the SMEs, as well as public investment programmes funded by the EU. In addition, private consumption grew at a solid pace on the back of low inflation. Thus, growth seems to have become much more broadly based. Real GDP in Q2 grew by 0.8% q/q (3.9% y/y), registering the strongest annual growth rate since 2006. However, the Hungarian economy is likely to face greater uncertainties over the coming months as the German economy, which is the main export destination, has started to show signs of a slowdown due to the additional sanctions imposed on Russia by the Western countries in the face of growing tensions in eastern Ukraine. This outcome would affect Hungary's exports negatively. Furthermore, the government, which had been underpinning its economic recovery through spending increases, decided to cut back HUF110bn of 2014 spending in order to meet the budget deficit target of 2.9% of GDP and comply with the EU deficit criteria. This spending reduction is likely to reduce the size of stimulus programmes, and some of the public spending projects may be postponed, lowering the overall growth potentials. Moreover, as the households with foreign currency loans have been exposed to currency risks, a further depreciation of the forint would reduce their spending power, hence impacting consumption itself which has just started to show signs of recovery.

Parliament passed legislation aimed at providing relief to foreign currency household borrowers. The new law is to void unilateral hikes in fees and interest rates imposed by banks over the past 10 years. While this will reduce the debt burden of households, the banks will face huge costs of between HUF600bn - 900bn, reducing their lending capacity and further delaying a recovery of corporate lending activities. The European Central Bank (ECB) warned Hungary that the new legislation might harm the Hungarian economy and its financial markets.

GDP

The preliminary data confirmed that real GDP in Q2 rose by 0.8% q/q (+3.9% y/y). While the quarterly growth rate registered positive growth for the sixth consecutive quarter, annual growth was the fastest since 2006 partly due to a low base. Higher frequency data suggests that the construction and manufacturing sectors were the main contributors to solid growth.

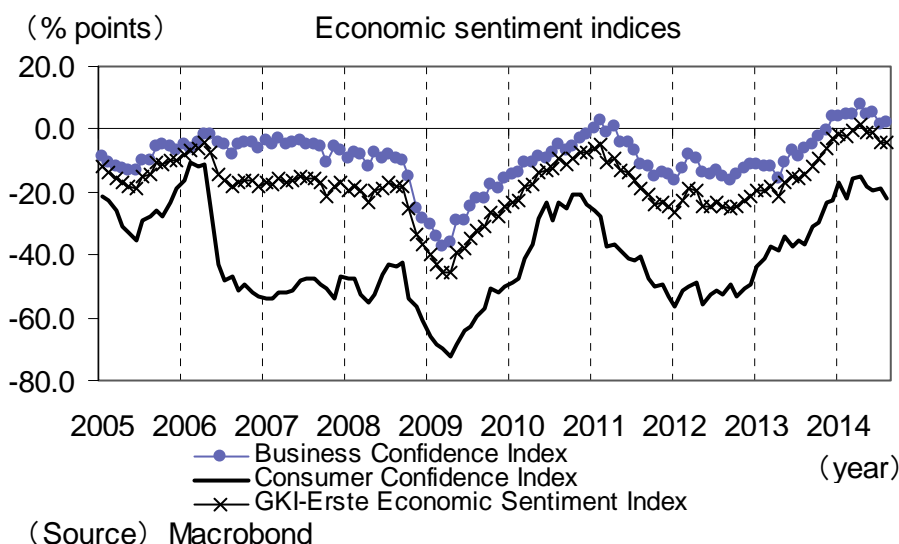


Output

Industrial production (calendar adjusted) rose by 11.3% y/y in June, accelerating further from the previous month's 10.1% y/y. Supported by the substantial increase in exports, the transport equipment branch enjoyed a strong expansion, rising by 23.5% y/y. In addition, the food and beverages as well as the consumer electronics branches registered solid growth rates. Meanwhile, concerns over economic prospects are on the rise. The manufacturing Purchasing Managers' Index (PMI), which is a leading indicator of economic activities, has fallen substantially in August to 51.0, registering the weakest reading since the beginning of the year. The fall in new orders from 62.2 to 51.8 was the main cause of the overall decline. While the impact of the sanctions on Russia has not fully materialised, output and exports are highly likely to decline further in the coming months. Closer monitoring of these developments will be required.

Consumption

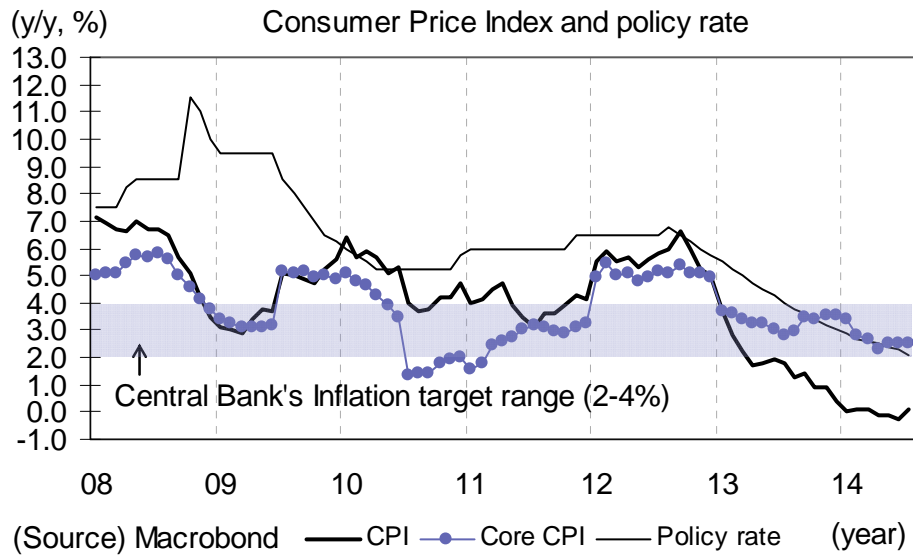
Growth of retail sales (calendar adjusted) in June stood at 4.1% y/y, maintaining a somewhat steady growth pace although it has shown a downward trend since March. While the consumer confidence indicator had been on the rise until April on the back of low inflation and falling unemployment, such optimism seems to have dissipated in the face of rising geopolitical tensions in Ukraine and the imposition of sanctions on Russia, which has cast a shadow on economic prospects across Europe and affected overall sentiments. The GKI-Erste Economic Sentiment Index fell further to -4.1 points in August, while the Consumer Confidence Index is down to -21.9 points, both of which are levels not seen since late last year.



Prices, Monetary Policy

Consumer price inflation in July rose by 0.1% y/y, up from the previous month's -0.3%, returning to positive territory for the first time in four months. Rises in service prices as well as costs of motor fuels coupled with smaller declines in food prices pushed up the overall price level. While the immediate inflationary pressure remains mild, it is likely to build up gradually as the impacts of household energy price cuts over the past year disappear. In addition, the effects of a weak forint coupled with a slow but steady recovery in wages will create further inflationary pressure in the coming months. In fact, the core inflation rate, which excludes highly volatile items such as food and energy prices, is no longer in a downward trend and stood at 2.5% y/y in July.

The National Bank of Hungary (MNB) decided to maintain its benchmark interest rate at 2.1% on August 26th. The bank started its monetary easing cycle in August 2012 and cut the policy rate a total of 4.9% points over the past two years. Last month, after the decision to implement a further rate cut of 0.2% points, the MNB announced the end of the two-year easing cycle and expressed its intention to maintain the current level of policy rates until the end of 2015. However, further tapering of ultra-loose US monetary policy will make emerging market assets relatively less attractive, thus there remains underlying downward pressure on the forint. Should the forint depreciate, pushing up the inflation rate higher than the MNB's expectations, the MNB might have to raise the policy rates before the end of 2015.



Main Economic & Financial Indicators: Hungary

1. Annual and quarterly data

		2011	2012	2013	13/Q2	Q3	Q4	14/Q1	Q2
GDP (at current prices)	(US\$ bn)	137.4	124.6	130.0	31.9	33.3	36.3	30.7	-
Real GDP growth	(%, q/q)				0.3	1.1	0.7	1.1	0.8
	(%, y/y)	1.6	-1.6	1.1	0.5	1.9	2.7	3.5	3.9
(Private consumption)	(%, y/y)	0.3	-1.7	0.2	0.4	-0.3	1.0	0.3	-
					0.2	0.1	1.2	1.5	
(Gross fixed capital formation)	(%, y/y)	-5.9	-3.5	4.7	3.6	2.7	2.9	2.8	-
					5.4	8.3	10.5	13.3	
Industrial production (exc.construction)	(%, y/y)	5.6	-1.8	1.1	0.4	1.9	5.2	8.4	10.4
Retail sales*	(%, y/y)	0.3	-1.9	1.6	1.4	2.7	4.8	7.1	5.1
Bank credits to the private sector	(%, y/y)	-0.1	-13.2	-4.2	-5.9	-2.6	-4.2	-4.5	-2.3
Consumer price index	(%, y/y)	3.9	5.7	1.7	1.8	1.1	0.7	0.1	-0.2
Gross average earnings growth	(%, y/y)	5.2	4.7	3.4	3.8	3.9	2.9	1.8	4.2
Unemployment rate *	(%)	11.0	10.9	10.2	10.3	9.8	9.1	8.3	8.0
Trade balance *	(US\$ mn)	9,842	8,523	9,308	2,227	2,486	2,450	2,643	2,259
Exports	(US\$ mn)	111,218	102,830	108,579	26,680	27,129	28,573	28,537	29,009
Export growth	(%, y/y)	17.4	-7.5	5.6	3.2	8.9	10.1	8.9	8.7
Imports	(US\$ mn)	101,375	94,308	99,271	24,453	24,644	26,123	25,894	26,750
Import growth	(%, y/y)	15.9	-7.0	5.3	4.7	8.2	7.7	7.7	9.4
Current account	(US\$ mn)	583	1,062	3,904	748	1,597	868	1,349	-
Capital and financial balances	(US\$ mn)	7,470	-7,322	-3,538	-2,594	-5,602	3,573	2,599	-
Foreign direct investment	(US\$ mn)	5,745	13,940	3,075	-878	-2,156	5,297	-	-
Foreign reserves	(US\$ mn)	48,681	44,506	46,389	44,680	41,475	46,389	49,628	49,145
External debt	(US\$ mn)	172,996	164,563	162,427	162,986	160,177	162,427	163,177	-
Stock price index		20,502	18,060	18,652	18,625	18,535	18,625	18,056	18,421
Short-term int. rates (Interbank BUBOR 3m, %)		6.2	7.0	4.3	4.6	3.9	3.3	2.8	2.5
EU Harmonised Gov. 10y bond yields (%)		7.6	7.9	5.9	5.6	6.1	5.7	5.8	5.0
Forint/USD		201.2	225.1	223.6	226.5	224.9	218.5	224.6	223.1
Forint/Euro		279.4	289.3	296.9	295.7	298.0	297.4	307.8	306.0
Forint/GBP		322.2	356.6	349.7	347.7	348.7	353.7	371.7	375.5

2. Monthly data

		12/13	01/14	2	3	4	5	6	7
Industrial production (exc.construction)	(%, y/y)	6.7	6.4	8.0	10.7	9.7	10.1	11.3	-
Retail sales*	(%, y/y)	3.5	6.2	6.7	8.5	6.3	4.9	4.1	-
Bank credits to the private sector	(%, y/y)	-4.2	-2.0	-2.3	-4.5	-3.3	-3.1	-2.3	-
Consumer price index	(%, y/y)	0.4	0.0	0.1	0.1	-0.1	-0.1	-0.3	0.1
Gross average earnings growth	(%, y/y)	-1.1	0.9	1.7	2.8	4.1	4.9	3.7	-
Unemployment rate *	(%)	8.9	8.6	8.3	8.1	8.0	8.0	7.9	-
Trade balance *	(US\$ mn)	415	654	1,037	951	867	560	832	-
Exports	(US\$ mn)	8,107	9,040	9,356	10,140	9,783	9,662	9,564	-
Export growth	(%, y/y)	15.0	5.9	7.0	13.8	9.4	7.9	8.8	-
Imports	(US\$ mn)	7,692	8,386	8,319	9,189	8,916	9,102	8,732	-
Import growth	(%, y/y)	12.1	2.6	5.6	14.9	10.6	9.4	8.1	-
Stock price index		18,483	19,011	18,117	16,951	17,794	18,534	18,936	18,090
Short-term int. rates (Interbank BUBOR 3m, %)		3.1	2.9	2.8	2.7	2.7	2.5	2.4	2.3
EU Harmonised Gov. 10y bond yields (%)		5.8	5.6	6.0	5.8	5.6	5.0	4.5	4.3
Forint/USD		218.7	221.8	226.9	225.3	222.5	221.6	225.1	229.0
Forint/Euro		300.0	302.2	310.2	311.5	307.4	304.7	305.9	309.8
Forint/GBP		358.2	365.4	375.9	374.5	372.6	373.3	380.7	390.9

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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