

Main Economic & Financial Indicators Hungary

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Overview

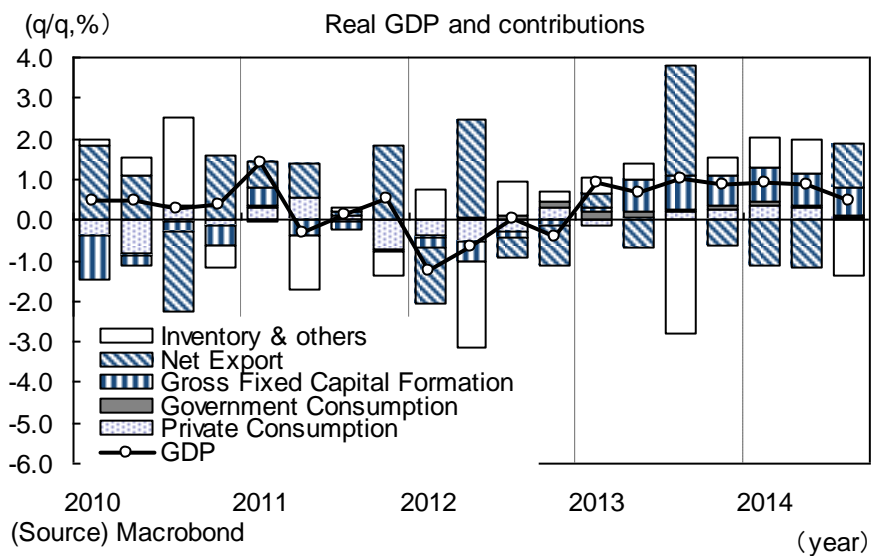
The Hungarian economy has stayed on its recovery path as weaker external demand was compensated somewhat by relatively solid domestic demand. However, the momentum has clearly weakened in the latter half of the year. Real GDP in Q3 grew by 0.5% q/q (+3.2% y/y), which was stronger than expected on the back of the good harvest, but the pace has now slowed down for the second consecutive quarter. On the back of stagnant economic activity in the euro area, which is Hungary's major export destination, the pace of exports has weakened substantially. Fixed capital formation has also slowed down due to reduced public investment projects as the government began to cut its spending. Meanwhile, private consumption maintained a relatively steady pace of growth, supported by the stable labour market.

In 2015, the government plans to reduce the deficit to 2.4% of GDP from the previous year's 2.9% of GDP. However, it has made clear that its key supporters, namely families and young couples, are to be supported through benefits increases for families with children, a tax reduction for newlywed couples and various employment support schemes. It is highly likely that the government will try to raise revenue through unconventional measures, such as special taxes which were imposed in the past on the banking, telecom and other business sectors dominated by foreign corporations, in order to finance these populist measures. There remains a risk that the government's erratic tax policy could put off potential investment projects. The National Bank of Hungary (MNB), against the backdrop of shrinking bank lending due to the rise in non-performing loans in the banking sector, decided to extend its lending scheme targeted at SMEs.

GDP

The preliminary data confirmed that real GDP in Q3 rose by 0.5% q/q (+3.2% y/y), positive growth for the seventh consecutive quarter. Looking at the components, private consumption has hardly grown, with just a 0.1% increase over the quarter on the back of weakening consumer confidence. Meanwhile, fixed capital formation maintained a steady growth rate of 3.0% q/q (+13.2 y/y) as the flow of EU investment funds (which were allocated during the previous EU budget for 2007 and 2013) supported overall investment through infrastructure projects, although the pace is slowing somewhat. Exports slowed down to 1.1% q/q from the

previous quarter's 3.0% q/q, however imports remain almost unchanged, rising by a mere 0.1% over the quarter. Thus, net exports' contributions to growth became positive.

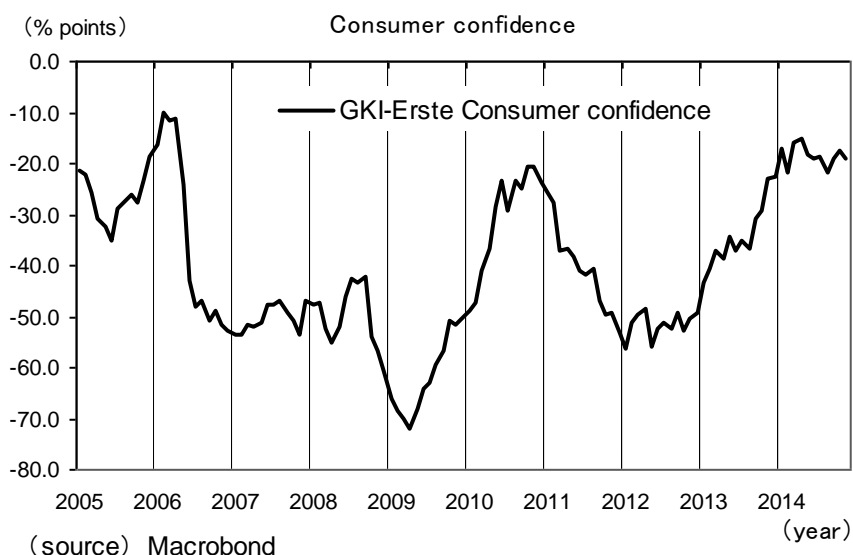


Output

Industrial production (calendar adjusted) rose by a mere 1.7% y/y in October. On the calendar adjusted basis, it was the slowest pace since August 2013. Growth in the transport equipment branch, which had been enjoying double-digit growth rates in the first half of the year, has slowed substantially to 5.1% y/y. Growth in food products and beverages as well as electric appliances have turned negative over the year, albeit modestly. Meanwhile, the manufacturing Purchasing Managers' Index (PMI), which is a leading indicator of economic activities, stood at 55.1 in November, improving since the summer due to a substantial increase in new orders. The reading for new orders stood at 62.6, the highest level since 2011. That said, due to the growing uncertainties over the economic prospects of the European economies (which are Hungary's major export destinations), it is difficult to say whether the current pace of new orders can be sustained in the coming months.

Consumption

Growth of retail sales (calendar adjusted) in October stood at 5.2% y/y, recovering from the lows reached in August. While the consumer confidence indicator maintained a relatively high level of -19.4, it is lower than this year's peak of -15.3 recorded in April. The tighter sanctions on Russia have increased uncertainties over Hungary's economic prospects; however, the relatively steady labour market situation seems to have underpinned consumer confidence somewhat. The 3 months moving average unemployment rate (seasonally unadjusted) was 7.1% in October, 2.7% points down from the same period in the previous year.



Prices, Monetary Policy

Consumer price inflation in November fell by 0.7% y/y, the third consecutive month of negative growth. Gradual utility price cuts, which were introduced in late 2013, made electricity and gas prices fall by over 10% y/y, creating substantial downward inflationary pressure and pushing overall inflation down by over 1.0% point. Furthermore, the embargo on imported foods by the Russian government has created an excess food supply environment which, coupled with a good harvest, pushed down overall food prices. Looking ahead, while the impacts of price cuts will fade out over the course of the year, potentially creating an upward pressure on inflation, recent plunges in oil prices will have the opposite effect. Thus, the wage development in the coming months will play a crucial role in bringing the inflation rate back into positive territory.

The National Bank of Hungary (MNB) decided to maintain its benchmark interest rate at 2.1% on the 16th of December. The expectations for rate cuts were mounting on the back of the third consecutive fall in inflation and plummeting oil prices. However, the bank decided to take a more cautious stance in the face of a potential risk of capital outflows from emerging markets due to the growing uncertainties over Hungary's economic prospects.

Foreign currency loan conversions

Parliament has passed legislation obliging banks to convert almost all foreign currency loans by households into forints in February of 2015. The conversion rates were set at official rates on the 7th of November (HUF308.87/Euro, HUF256.60/CHF). While the exchange rates adopted were not overly favourable to borrowers, the interest rates on these converted loans will be capped. Thus, it is likely that households' debt burden will be eased somewhat, while the losses will fall on the banks. Outstanding foreign currency loans by households are roughly HUF3.5trn (about \$14bn; housing loans HUF1.7trn, consumer loans HUF1.8trn), which accounts for over half of the outstanding household loans. The reduction in exchange rate risks could have a positive effect on consumer confidence, thus lifting up overall consumption. The currency conversion programme will be facilitated by the MNB, which has allocated up to €9bn from its foreign currency reserves for banks in order to neutralise any negative impacts from the conversion on the forint spot market.

Main Economic & Financial Indicators: Hungary

1. Annual and quarterly data

		2011	2012	2013	13/Q3	Q4	14/Q1	Q2	Q3
GDP (at current prices)	(US\$ bn)	139.4	126.8	133.5	34.2	37.2	31.4	35.1	35.1
Real GDP growth	(%. q/q)	1.8	-1.5	1.5	1.0	0.9	0.9	0.8	0.5
	(%. y/y)				2.2	3.2	3.7	3.9	3.2
(Private consumption)	(%. y/y)	0.8	-2.0	0.0	0.3	0.4	0.6	0.5	0.1
					-0.5	0.8	1.3	2.6	
(Gross fixed capital formation)	(%. y/y)	-2.0	-4.1	3.7	4.1	3.6	4.1	3.5	3.0
					8.1	11.4	19.6	18.4	
Industrial production (exc.construction)	(%. y/y)	5.6	-1.8	1.1	1.8	5.2	7.5	10.4	6.7
Retail sales*	(%. y/y)	0.3	-1.9	1.6	2.7	4.8	7.1	5.1	3.2
Bank credits to the private sector	(%. y/y)	-0.1	-13.2	-4.2	-2.6	-4.2	-4.5	-2.3	-3.6
Consumer price index	(%. y/y)	3.9	5.7	1.7	1.5	0.7	0.1	-0.2	-0.1
Gross average earnings growth	(%. y/y)	5.2	4.7	3.4	3.9	3.0	1.9	4.3	2.6
Unemployment rate *	(%)	11.1	11.1	10.4	10.0	9.4	8.5	8.1	7.7
Trade balance *	(US\$ mn)	9,842	8,523	8,708	2,360	2,282	2,562	1,931	2,259
Exports	(US\$ mn)	111,218	102,830	108,015	26,911	28,464	28,315	29,060	29,009
Export growth	(%. y/y)	17.4	-7.5	5.0	8.1	9.7	8.6	9.3	8.7
Imports	(US\$ mn)	101,375	94,308	99,307	24,551	26,182	25,754	27,129	26,750
Import growth	(%. y/y)	15.9	-7.0	5.3	7.8	8.0	7.5	10.2	9.4
Current account	(US\$ mn)	583	1,062	3,904	1,597	868	1,349	-	-
Capital and financial balances	(US\$ mn)	7,470	-7,322	-3,538	-5,602	3,573	2,599	-	-
Foreign direct investment	(US\$ mn)	5,745	13,940	3,075	-2,156	5,297	-	-	-
Foreign reserves	(US\$ mn)	48,681	44,506	46,389	41,475	46,389	49,628	49,145	45,059
External debt	(US\$ mn)	175,712	167,717	164,205	161,875	164,205	165,037	166,066	-
Stock price index		20,502	18,060	18,652	18,535	18,625	18,056	18,421	18,031
Short-term int. rates (Interbank BUBOR 3m, %)		6.2	7.0	4.3	3.9	3.3	2.8	2.5	2.2
EU Harmonised Gov. 10y bond yields (%)		7.6	7.9	5.9	6.1	5.7	5.8	5.0	4.6
Forint/USD		201.2	225.1	223.6	224.9	218.5	224.6	223.1	235.7
Forint/Euro		279.4	289.3	296.9	298.0	297.4	307.8	306.0	312.2
Forint/GBP		322.2	356.6	349.7	348.7	353.7	371.7	375.5	393.4

2. Monthly data

		04/14	01/00	6	7	8	9	10	11
Industrial production (exc.construction)	(%. y/y)	9.7	10.2	11.4	12.2	2.8	5.2	1.7	-
Retail sales*	(%. y/y)	6.3	4.9	4.1	2.5	2.5	4.5	5.2	-
Bank credits to the private sector	(%. y/y)	-3.3	-3.1	-2.3	-2.9	-2.4	-3.6	-2.8	-
Consumer price index	(%. y/y)	-0.1	-0.1	-0.3	0.1	0.2	-0.5	-0.4	-0.7
Gross average earnings growth	(%. y/y)	4.1	5.0	3.7	3.1	2.2	2.4	-	-
Unemployment rate *	(%)	8.1	8.1	8.1	8.1	7.7	7.4	7.1	-
Trade balance *	(US\$ mn)	741	398	792	653	369	1,220	954	-
Exports	(US\$ mn)	9,759	9,675	9,626	9,897	8,039	10,099	9,567	-
Export growth	(%. y/y)	9.4	8.7	10.0	12.4	-3.5	3.3	-8.1	-
Imports	(US\$ mn)	9,018	9,277	8,834	9,245	7,670	8,880	9,105	-
Import growth	(%. y/y)	10.7	10.5	9.2	12.2	0.0	2.8	-3.7	-
Stock price index		17,794	18,534	18,936	18,090	17,589	18,371	17,520	17,400
Short-term int. rates (Interbank BUBOR 3m, %)		2.7	2.5	2.4	2.3	2.1	2.1	2.1	2.1
EU Harmonised Gov. 10y bond yields (%)		5.6	5.0	4.5	4.3	4.7	4.6	4.2	-
Forint/USD		222.5	221.6	225.1	229.0	235.8	242.8	242.8	246.0
Forint/Euro		307.4	304.7	305.9	309.8	313.9	313.2	307.8	306.9
Forint/GBP		372.6	373.3	380.7	390.9	393.8	395.8	390.1	388.2

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

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