

# Main Economic & Financial Indicators Hungary

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## Overview

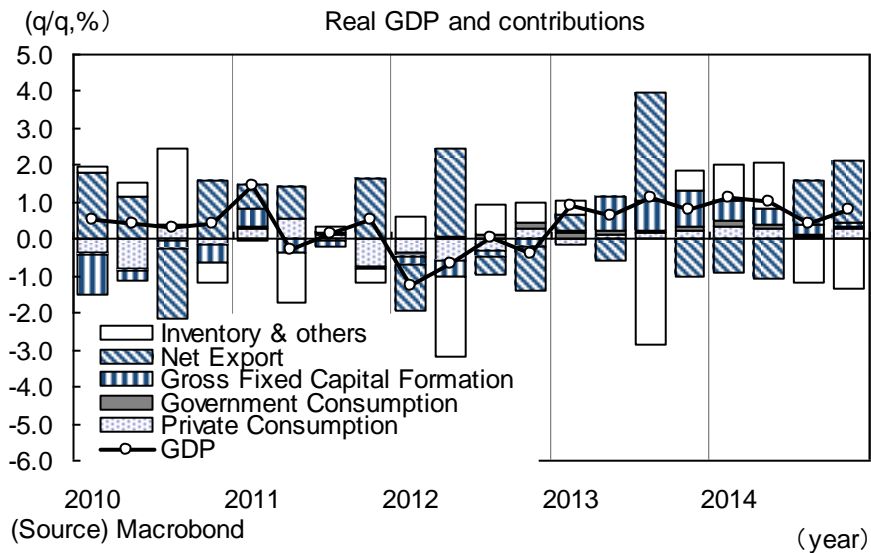
The Hungarian economy maintained its expansionary phase, supported by private consumption and exports. Real GDP in Q4 grew by 0.8% q/q, up from the previous quarter's +0.4% q/q. Throughout 2014, the Hungarian economy grew by 3.6% y/y, which was the second-strongest growth rate among the EU member countries, following Ireland. Fixed capital formation was the main driver, expanding by 12.0% y/y as the flow of EU investment funds (which were allocated during the previous EU budgets for 2007 to 2013) increased infrastructure investment projects. Exports also rose by 8.7% over the year, underpinning overall growth. However, as imports expanded at a much faster pace than exports, net exports' contribution to growth turned negative. Meanwhile, the overall inflation rate for 2014 was -0.2% y/y. Falling oil and food prices added further downward pressure on the already low inflation base, thus inflation fell into negative territory.

Looking ahead, domestic demand – in particular, consumption – will support growth together with exports, which are expected to increase as the Eurozone economy improves. Household consumption will be supported by the following factors: in addition to low inflation and the improving labour market situation, the completion of the foreign exchange conversion scheme (converting households' foreign exchange loans to forint loans) in February should support consumption by reducing the exchange rate risks, thus supporting consumer sentiment. Moreover, compensation pay-outs by banks to foreign exchange loan borrowers should increase households' disposable income, thus underpinning consumption. While growth in fixed capital formation is unlikely to reach the same level of the previous year's double digits, the extension of the Funding for Growth Scheme and the improving domestic consumption should support business sentiment and hence investment. In the latest inflation report released in March, the National Bank of Hungary (MNB) raised its growth projection for 2015 to +3.2% y/y (from +2.3% y/y). The bank also raised its forecasts for both private consumption and fixed capital formation to +3.2% y/y and 5.2% y/y, up from +2.8% and +1.8% y/y respectively.

## GDP

Real GDP growth accelerated in Q4 to 0.8% q/q from the previous quarter's +0.4% q/q. Looking at the components, private consumption grew faster, from +0.1% q/q to +0.5% q/q, as falling oil prices and the improving labour market situation have increased households'

disposable income. Fixed capital formation, which had been underpinning overall growth over the course of 2014, slowed down to 0.4% q/q from 1.2% q/q due to a decrease in construction investment. Growth in both imports and exports accelerated from the previous quarter, and exports grew faster than imports, thus net exports' contribution to growth has expanded somewhat.

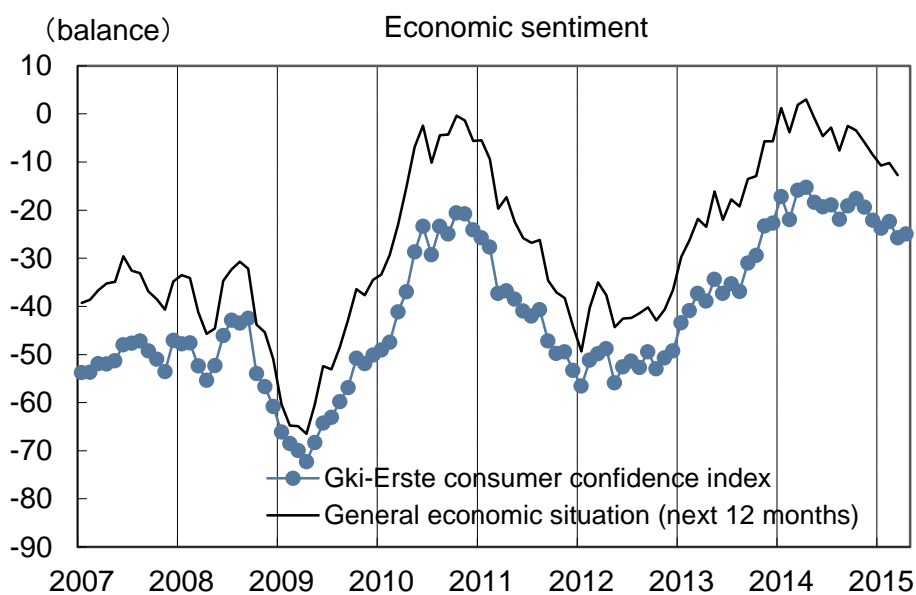


## Output

Industrial production (calendar adjusted) rose by 5.8% y/y in February, slowing somewhat from the previous month's 7.7% y/y. The fact that the transport equipment branch, which includes the automobile segment, continued to expand at a double-digit growth rate implies that the underlining trend remains relatively stable. Meanwhile, the manufacturing Purchasing Managers' Index (PMI), which is a leading indicator of economic activities, stood at 55.6 in March, experiencing an improvement for the third consecutive month, underpinned by the strength of new orders which registered in March at 60.4.

## Consumption

Growth in retail sales (calendar adjusted) in February stood at 6.2% y/y, decelerating slightly from the previous month's +8.7% y/y as sales in the food and beverages branch had weakened somewhat. That said, the underlying trend remains relatively stable, supported by the increase in real wages on the back of lower inflation. The 3-month moving average unemployment rate (seasonally unadjusted) was 7.7% in February, 0.7% points down from the same period in the previous year. The improved labour market situation has also underpinned consumption. Consumer sentiment in April registered at -25.0. Although the level remains relatively high compared with the historic standard, it has been showing a downward trend since last April. While the situation surrounding domestic consumption has improved somewhat, the external environment including the prolonged Russia-Ukraine conflict and the still-fragile Eurozone economic recovery seems to have created additional uncertainties, thus undermining consumer sentiment.



(Source) Macrobond

## Prices, Monetary Policy

Consumer price inflation in March fell by 0.6% y/y, recording negative growth for the seventh consecutive month. Due to the past utility price cuts, housing-related costs continued to record negative growth at -2.9% y/y. An annual 5.4% decline in fuel and power costs has also created downward pressure on overall inflation. Looking ahead, while the impacts of utility price cuts will fade out over the course of the year, potentially creating upward inflationary pressure, weaker oil prices will have the opposite effect. That said, the recent development of oil prices suggests that unless there are further price dives in oil, the downward inflationary pressure from the oil factor would be reduced significantly in the latter half of the year. In the latest inflation report, the MNB projected that the inflation rate is set to stay in negative territory during the first half of 2015 but will subsequently start to increase. While the labour market situation is set to improve, wage pressure will remain subdued on the back of weak inflationary expectations. The bank projected the inflation rate to be zero for 2015, substantially lower than the previous projection (in December) of 0.9% y/y.

On the 21<sup>st</sup> of April, the MNB decided to cut its benchmark interest rate by a further 0.15% points to 1.8%, following the rate cut decision by the same amount in the previous month. In line with the improving economic situation, the downward price pressure has been receding gradually. However, low inflation is likely to persist on the back of subdued imported inflationary pressure, lower inflation expectations and a relatively large negative output gap. The MNB implied a potential for further rate cuts.

## Reduced external vulnerabilities

In 2014, the current account balance recorded \$5.7bn in surplus (about 4% of GDP), the 4<sup>th</sup> consecutive year of expansion. With the completion of the foreign exchange conversion

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scheme in February, potential exchange risks which households and banks were exposed to have been reduced substantially, making the Hungarian economy less vulnerable to exchange rate fluctuations. Given the reduced external vulnerabilities coupled with the improved economy and the budgetary situation, Standard & Poor's, the credit rating agency, upgraded Hungary's sovereign rating to BB+. This is the first rate increase since late 2011 when the rating was downgraded to BB.

## Main Economic & Financial Indicators: Hungary

### 1. Annual and quarterly data

		2012	2013	2014	14/Q1	Q2	Q3	Q4	15/Q1
GDP (at current prices)	(US\$ bn)	126.8	133.5	137.0	31.4	35.4	35.1	35.0	-
Real GDP growth	(%, q/q)				1.1	1.0	0.4	0.8	-
	(%, y/y)	-1.5	1.5	3.6	3.8	4.1	3.3	3.4	-
(Private consumption)	(%, y/y)	-2.0	0.0	1.6	0.6	0.5	0.1	0.5	-
					1.5	2.6	1.0	1.9	-
(Gross fixed capital formation)	(%, y/y)	-4.1	3.7	12.0	2.5	2.0	1.2	0.4	-
					19.8	18.8	13.2	1.9	-
Industrial production (exc.construction)	(%, y/y)	-1.8	1.1	7.6	7.4	10.4	6.8	3.9	-
Retail sales*	(%, y/y)	-1.9	1.6	5.1	7.0	5.1	3.2	5.3	-
Bank credits to the private sector	(%, y/y)	-13.2	-4.2	-2.3	-4.5	-2.4	-3.8	-2.3	-
Consumer price index	(%, y/y)	5.7	1.7	-0.2	0.1	-0.2	-0.1	-0.7	-1.0
Gross average earnings growth	(%, y/y)	4.7	3.4	3.1	1.9	4.3	2.5	3.7	-
Unemployment rate *	(%)	11.0	10.3	7.9	8.5	8.1	7.7	7.1	-
Trade balance *	(US\$ mn)	8,523	8,708	8,501	2,678	1,711	2,345	1,768	-
Exports	(US\$ mn)	102,830	108,015	112,775	28,353	29,081	28,246	27,096	-
Export growth	(%, y/y)	-7.5	5.0	4.4	8.8	9.4	5.0	-4.8	-
Imports	(US\$ mn)	94,308	99,307	104,274	25,675	27,370	25,901	25,327	-
Import growth	(%, y/y)	-7.0	5.3	5.0	7.2	11.1	5.5	-3.3	-
Current account	(US\$ mn)	2,287	5,398	5,686	1,700	647	2,232	1,110	-
Capital and financial balances	(US\$ mn)	9,103	13,528	15,520	2,188	3,091	3,945	6,297	-
Foreign direct investment	(US\$ mn)	14,375	3,098	4,893	2,053	-1,951	2,224	2,567	-
Foreign reserves	(US\$ mn)	44,506	46,389	41,901	49,628	49,145	45,059	41,901	-
External debt	(US\$ mn)	168,056	164,751	143,322	165,945	166,972	152,045	143,322	-
Stock price index		18,060	18,652	17,932	18,056	18,421	18,031	17,270	17,709
Short-term int. rates (Interbank BUBOR 3m, %)		7.0	4.3	2.4	2.8	2.5	2.2	2.1	2.1
EU Harmonised Gov. 10y bond yields (%)		7.9	5.9	4.8	5.8	5.0	4.6	3.8	3.2
Forint/USD		225.1	223.6	232.8	224.6	223.1	235.7	247.3	274.2
Forint/Euro		289.3	296.9	308.7	307.8	306.0	312.2	308.8	309.0
Forint/GBP		356.6	349.7	383.1	371.7	375.5	393.4	391.3	415.2

### 2. Monthly data

		14/08	9	10	11	12	15/01	2	3
Industrial production (exc.construction)	(%, y/y)	2.8	5.5	1.5	5.6	4.7	7.7	5.8	-
Retail sales*	(%, y/y)	2.5	4.6	5.2	5.1	5.7	8.7	6.2	-
Bank credits to the private sector	(%, y/y)	-2.5	-3.8	-3.0	-4.3	-2.3	-1.3	-3.6	-
Consumer price index	(%, y/y)	0.2	-0.5	-0.4	-0.7	-0.9	-1.4	-1.0	-0.6
Gross average earnings growth	(%, y/y)	2.2	2.4	3.2	1.1	6.7	4.1	3.4	-
Unemployment rate *	(%)	7.7	7.4	7.1	7.2	7.1	7.4	7.7	-
Trade balance *	(US\$ mn)	555	1,210	360	980	428	814	954	-
Exports	(US\$ mn)	8,207	10,098	9,570	9,561	7,965	7,968	9,567	-
Export growth	(%, y/y)	-1.5	3.3	-8.1	-4.4	-1.1	-11.5	-8.1	-
Imports	(US\$ mn)	7,652	8,887	9,209	8,580	7,538	7,154	9,105	-
Import growth	(%, y/y)	-0.3	2.9	-2.6	-4.4	-2.7	-13.9	-3.7	-
Stock price index		17,589	18,371	17,520	17,400	16,907	16,385	17,868	18,888
Short-term int. rates (Interbank BUBOR 3m, %)		2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0
EU Harmonised Gov. 10y bond yields (%)		4.7	4.6	4.2	3.7	3.6	3.2	3.1	3.3
Forint/USD		235.8	242.8	242.8	246.0	253.0	271.7	270.0	280.6
Forint/Euro		313.9	313.2	307.8	306.9	311.3	316.5	306.9	303.4
Forint/GBP		393.8	395.8	390.1	388.2	395.1	411.9	414.0	419.6

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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