

# Main Economic & Financial Indicators Hungary

6 AUGUST 2015

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## Overview

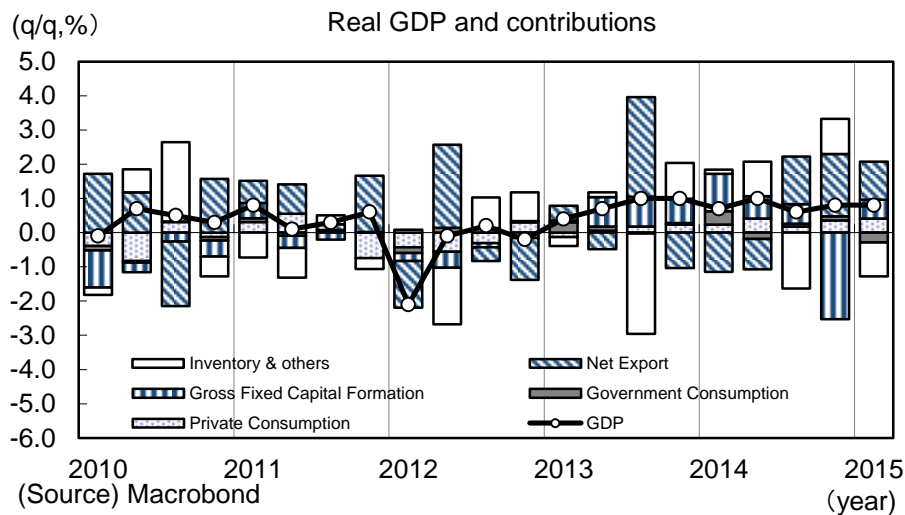
The Hungarian economy has somewhat maintained its expansionary phase, supported by private consumption and exports. Despite this, the latest data shows signs of moderation in exports along with the substantial slowdown in investment activities, in particular, the construction sector whose output shrank in May. Meanwhile, the inflation rate returned to positive territory in May, reflecting a recovery in world oil prices as well as relatively solid domestic consumption growth. Thus, the rate cut in July by the Hungarian Central Bank (MNB) is likely to mark the end of its monetary easing cycle after the continuous rate cuts since March.

Looking ahead, domestic demand particularly consumption, will be a main driver for growth, although the increase in exports will play a key role for underpinning overall consumption. Household consumption will be supported by an increase in households' real income due to low inflation and the improving labour market situation. In addition, consumption should be further supported by a boost in household income from compensation pay-outs by banks to those who made foreign exchange loan contracts before the crisis. Exchange rate risks which households had been exposed to have reduced substantially due to the completion of the foreign exchange conversion scheme (converting households' foreign exchange loans to forint loans). This should eventually lift up households' appetite for consumption. Both the extension of the Funding for Growth Scheme and improving business sentiment, supported by improving domestic consumption, are likely to underpin investment activities. This could result in limited deceleration in fixed capital formation rather than the expected sharp slowdown. In June's inflation report, the MNB raised its growth projection for 2015 from 3.2% y/y in its previous report to 3.3% y/y. While growth in private consumption stayed the same at 3.2% y/y, exports were revised up to 8.0% y/y from 7.3% y/y. Meanwhile, growth in fixed capital formation was lowered to 2.2% y/y from 5.2% y/y.

## GDP

Real GDP growth was 0.8% q/q (3.5% y/y) in Q1 2015: maintaining the same pace as the previous quarter. Looking at the components, private consumption rose by 0.7 q/q (2.7% y/y), accelerating from the previous quarter thereby underpinning overall growth. The increase in

real wage growth as well as the improving labour market situation have supported the expansion in consumption. Fixed capital formation was up by 2.7% (-6.7% y/y) compared with the previous quarter when construction investment had plummeted significantly; therefore, while this may seem like a substantial increase, this is due to the previous quarter's very low base. A contraction on an annual basis was recorded for the first time since Q1 2013. This was brought about by the weakening of growth momentum in fixed capital formation as the EU funded investment projects which were allocated during the previous EU budget term between 2007 and 2013 are gradually coming to an end. Net exports' contribution to GDP remained positive reflecting steady growth in exports.

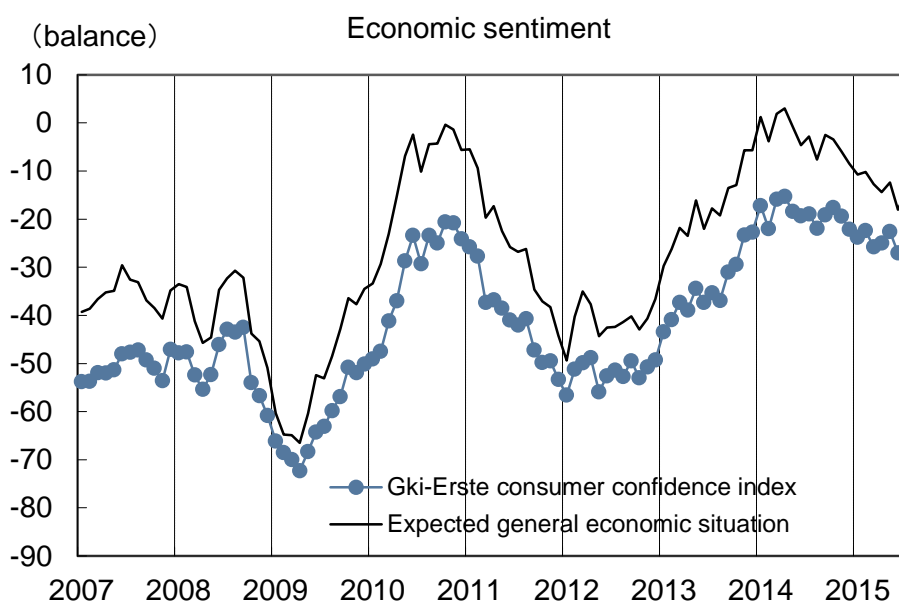


## Output

Industrial production (calendar adjusted) rose by 6.2% y/y in May, maintaining the growth momentum enjoyed in the previous month (6.3% y/y). While the transport equipment branch, which includes the automobile segment, continued to expand by 16.0% y/y, the machinery and equipment branch contracted by 4.9% y/y, registering negative growth for the third consecutive month. The manufacturing Purchasing Managers' Index (PMI), which is a leading indicator of economic activities, has shown a gradual downward trend and reached 50 in July, suggesting that growth in output could weaken further in the coming months.

## Consumption

Growth in retail sales (calendar adjusted) in June stood at 6.2% y/y, accelerating further from the previous month's 5.4% y/y. Sales in food, drinks and tobacco items, as well as automotive fuel, grew faster compared with the previous month. The environment surrounding consumption remains favourable, reflecting the increase in real wages and the improving labour market situation. The 3-month moving average unemployment rate (seasonally unadjusted) was 6.9% in June: 1.2% points down from the same period in 2014. Meanwhile, consumer sentiment in July registered at -26.0. Although the level remains relatively high compared with its historic standard, it has been showing a moderate downward trend since last April. The external environment, including the prolonged Russia-Ukraine conflict and the protracted Eurozone economic recovery, seems to have created additional uncertainties, thus undermining consumer sentiment somewhat.



(Source) Macrobond

## Prices, Monetary Policy

Consumer price inflation in June rose by 0.6% y/y, recording positive growth for the second consecutive month. Food prices, especially fruit and vegetables, were up by 1.4% y/y along with the cost of services, which rose by 1.9%, creating an upward inflationary pressure. Meanwhile, motor fuel and oil costs were down by 7.3% y/y which constitutes to exert downward pressure on overall inflation; however this pressure has been receding, reflecting the gradual recovery in world oil prices since January this year.

On the 21<sup>st</sup> July, the MNB decided to cut its benchmark interest rate by a further 0.15% points to 1.35%. This is the fifth rate cut since March bringing the total rate cuts to 0.75% points. The MBC expects the economy will continue to expand supported by solid domestic demand; however, inflationary pressure remains weak as a result of the low level of imported inflation and the degree of unused capacity in the economy. The bank also stated that “the policy rate has reached the level which ensures the medium-term achievement of the inflation target and a corresponding degree of support to the economy”, implying an end to the monetary easing cycle.

## Fiscal policy

The general government deficit was 2.6% of GDP in 2014, slightly up from 2.5% the previous year. This reflects a sharp increase in public investment despite the deficit undershooting its 2014’s target of 2.9% due to cyclically strong tax revenues and reduced evasion in VAT collection as a result of the introduction of a more efficient collection system. The government set the deficit target at 2.4% of GDP in 2015.

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In June, the Hungarian parliament approved the 2016 budget bill which includes tax changes: a reduction of the personal income tax rate from 16% to 15% as well as a reduced special bank levy of 0.31 from 0.53%. This bank levy reduction was the first step in the realisation of an agreement with the European Bank of Reconstruction and Development (EBRD) in February 2015, in which the government had pledged to lower taxation on the banking sector admitting that, for the sake of sustainable economic growth, the increase in banks' profits, as well as their lending capacity, would be crucial. The bank levy will be reduced gradually during the period between 2016 and 2019.

## Main Economic & Financial Indicators: Hungary

### 1. Annual and quarterly data

|   |           | 2012    | 2013    | 2014    | 14/Q2   | Q3      | Q4      | 15/Q1   | Q2     |
|---|-----------|---------|---------|---------|---------|---------|---------|---------|--------|
| GDP (at current prices)                       | (US\$ bn) | 126.8   | 133.5   | 136.9   | 35.3    | 35.1    | 35.0    | 26.9    | -      |
| Real GDP growth                               | (% . q/q) | -1.5    | 1.5     | 3.6     | 1.0     | 0.6     | 0.8     | 0.8     | -      |
|   | (% . y/y) |         |         |         | 4.1     | 3.3     | 3.3     | 3.5     | -      |
| (Private consumption)                         | (% . y/y) | -2.0    | 0.0     | 1.6     | 0.7     | 0.3     | 0.6     | 0.7     | -      |
|   |           |         |         |         | 2.6     | 1.0     | 1.9     | 2.7     | -      |
| (Gross fixed capital formation)               | (% . y/y) | -4.1    | 3.7     | 12.0    | 2.9     | 2.5     | -10.9   | 2.7     | -      |
|   |           |         |         |         | 18.8    | 13.2    | 1.9     | -6.7    | -      |
| Industrial production (exc.construction)      | (% . y/y) | -1.8    | 1.1     | 7.6     | 10.4    | 6.8     | 3.9     | 7.9     | -      |
| Retail sales*                                 | (% . y/y) | -1.9    | 1.6     | 5.0     | 4.6     | 3.2     | 5.3     | 6.7     | -      |
| Bank credits to the private sector            | (% . y/y) | -13.2   | -4.2    | -2.3    | -2.4    | -3.8    | -2.3    | -7.6    | -8.0   |
| Consumer price index                          | (% . y/y) | 5.7     | 1.7     | -0.2    | -0.2    | -0.1    | -0.7    | -1.0    | 0.3    |
| Gross average earnings growth                 | (% . y/y) | 4.7     | 3.4     | 3.1     | 4.3     | 2.5     | 3.7     | 4.1     | -      |
| Unemployment rate *                           | (%)       | 11.0    | 10.3    | 7.9     | 8.1     | 7.7     | 7.1     | 7.6     | 7.2    |
| Trade balance *                               | (US\$ mn) | 8,523   | 8,708   | 8,501   | 1,711   | 2,345   | 1,768   | 2,782   | -      |
| Exports                                       | (US\$ mn) | 102,830 | 108,015 | 112,775 | 29,081  | 28,246  | 27,095  | 25,147  | -      |
| Export growth                                 | (% . y/y) | -7.5    | 5.0     | 4.4     | 9.4     | 5.0     | -4.8    | -11.3   | -      |
| Imports                                       | (US\$ mn) | 94,308  | 99,307  | 104,274 | 27,370  | 25,901  | 25,327  | 22,365  | -      |
| Import growth                                 | (% . y/y) | -7.0    | 5.3     | 5.0     | 11.1    | 5.5     | -3.3    | -12.9   | -      |
| Current account                               | (US\$ mn) | 2,287   | 5,398   | 5,686   | 590     | 2,107   | 1,088   | 2,226   | -      |
| Capital and financial balances                | (US\$ mn) | 9,103   | 13,528  | 15,520  | 3,007   | 3,867   | 5,728   | 2,925   | -      |
| Foreign direct investment                     | (US\$ mn) | 14,375  | 3,098   | 4,893   | -1,871  | 2,244   | 2,591   | 615     | -      |
| Foreign reserves                              | (US\$ mn) | 44,506  | 46,389  | 41,901  | 49,145  | 45,059  | 41,901  | 39,463  | 38,614 |
| External debt                                 | (US\$ mn) | 168,056 | 164,751 | 143,618 | 167,084 | 152,136 | 143,618 | 135,201 | -      |
| Stock price index                             |           | 18,060  | 18,652  | 17,932  | 18,421  | 18,031  | 17,270  | 17,709  | 21,993 |
| Short-term int. rates (Interbank BUBOR 3m, %) |           | 7.0     | 4.3     | 2.4     | 2.5     | 2.2     | 2.1     | 2.1     | 1.7    |
| EU Harmonised Gov. 10y bond yields (%)        |           | 7.9     | 5.9     | 4.8     | 5.0     | 4.6     | 3.8     | 3.2     | 3.6    |
| Forint/USD                                    |           | 225.1   | 223.6   | 232.8   | 223.1   | 235.7   | 247.3   | 274.2   | 276.7  |
| Forint/Euro                                   |           | 289.3   | 296.9   | 308.7   | 306.0   | 312.2   | 308.8   | 309.0   | 305.8  |
| Forint/GBP                                    |           | 356.6   | 349.7   | 383.1   | 375.5   | 393.4   | 391.3   | 415.2   | 424.2  |

### 2. Monthly data

|   |           | 14/12  | 42005  | 4      | 5      | 4      | 5      | 6      | 7      |
|---|-----------|--------|--------|--------|--------|--------|--------|--------|--------|
| Industrial production (exc.construction)      | (% . y/y) | 4.6    | 8.6    | 6.0    | 9.0    | 6.3    | 6.2    | -      | -      |
| Retail sales*                                 | (% . y/y) | 5.7    | 8.6    | 6.4    | 5.1    | 5.0    | 5.4    | 6.2    | -      |
| Bank credits to the private sector            | (% . y/y) | -2.3   | -1.3   | -3.6   | -7.6   | -7.6   | -6.4   | -8.0   | -      |
| Consumer price index                          | (% . y/y) | -0.9   | -1.4   | -1.0   | -0.6   | -0.3   | 0.5    | 0.6    | -      |
| Gross average earnings growth                 | (% . y/y) | 6.7    | 4.0    | 3.4    | 4.9    | 3.6    | 1.5    | -      | -      |
| Unemployment rate *                           | (%)       | 7.1    | 7.4    | 7.7    | 7.8    | 7.6    | 7.1    | 6.9    | -      |
| Trade balance *                               | (US\$ mn) | 428    | 814    | 964    | 1,004  | 536    | 571    | -      | -      |
| Exports                                       | (US\$ mn) | 7,965  | 7,968  | 8,201  | 8,978  | 8,229  | 7,983  | -      | -      |
| Export growth                                 | (% . y/y) | -1.1   | -11.5  | -11.4  | -11.1  | -15.5  | -17.6  | -      | -      |
| Imports                                       | (US\$ mn) | 7,538  | 7,154  | 7,237  | 7,974  | 7,692  | 7,413  | -      | -      |
| Import growth                                 | (% . y/y) | -2.7   | -13.9  | -11.2  | -13.5  | -14.8  | -20.3  | -      | -      |
| Stock price index                             |           | 16,907 | 16,385 | 17,868 | 18,888 | 21,648 | 22,437 | 21,923 | 22,161 |
| Short-term int. rates (Interbank BUBOR 3m, %) |           | 2.1    | 2.1    | 2.1    | 2.0    | 1.8    | 1.7    | 1.5    | 1.4    |
| EU Harmonised Gov. 10y bond yields (%)        |           | 3.6    | 3.2    | 3.1    | 3.3    | 3.3    | 3.6    | 3.9    | -      |
| Forint/USD                                    |           | 253.0  | 271.7  | 270.0  | 280.6  | 277.0  | 274.7  | 278.4  | 282.9  |
| Forint/Euro                                   |           | 311.3  | 316.5  | 306.9  | 303.4  | 299.4  | 306.2  | 312.0  | 311.5  |
| Forint/GBP                                    |           | 395.1  | 411.9  | 414.0  | 419.6  | 414.6  | 424.5  | 433.3  | 440.2  |

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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