

Main Economic & Financial Indicators Hungary

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NAOKO ISHIHARA
ECONOMIST
ECONOMIC RESEARCH OFFICE (LONDON)
T +44-(0)20-7577-2179
E naoko.ishihara@uk.mufg.jp

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
A member of MUFG, a global financial group

Overview

The Hungarian economy has maintained its expansionary phase, led mainly by private consumption and an increase in exports which underpinned growth. In Q3, fixed capital formation contracted on both a quarterly and yearly basis, confirming weakening investment activities. Headline inflation rate remained low, moving around 0% on an annual basis, reflecting subdued oil prices. On the back of protracted low inflation, the Hungarian Central Bank (MNB) reduced its policy rate to an historic low of 1.35%.

Looking ahead, the economy is likely to maintain its modest expansionary phase, supported by private consumption, which will be underpinned by the favourable labour market situation as well as low inflation. An expansionary fiscal stance by the government should push the growth momentum upwards, albeit modestly. A gradual recovery in the EU economy should also support external demand, thereby creating a foundation for economic growth overall.

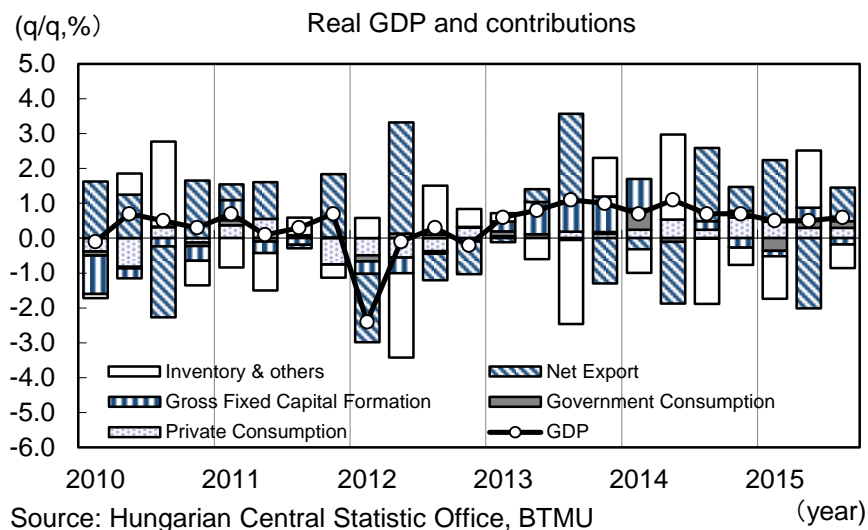
Growth in fixed capital formation, however, will be subdued due to a decreased number of public investment projects as a result of the slowdown in the inflow of EU funds. Access to the new EU budget (2014-20) starts from 2016 and anecdotal evidence suggests that the allocation process of the EU budget is usually slow to gather pace. In addition, the Funding for Growth Scheme is gradually phasing out from 2016; therefore, the availability of funds through this channel will taper off. While the new Growth Supporting Programme should encourage market-based lending, the shift to the new support programme could suppress lending activities, thereby lowering overall investment growth.

In December's inflation report, the MNB forecasted the growth rate for 2015 at 3.0%y/y, followed by a slower rate of 2.5% y/y in 2016. The inflation rate in 2015 is estimated to be 0.0% y/y and 1.7% y/y in the following year.

GDP

In Q3, real GDP growth was 0.6% q/q (2.4% y/y). While growth somewhat accelerated on a quarterly basis, a slowdown in the growth pace has become much clearer on an annual basis. Looking at the GDP components, fixed capital formation contracted by 0.8% q/q (-1.5% y/y), thereby pulling down overall growth. On the other hand, private consumption enjoyed a steady

growth of 0.5% q/q (2.7% y/y), supported by an increase in real wage growth as well as improved labour market conditions. Net exports' contribution to GDP turned positive in Q3 as the result of a combination of a fall in imports and a more modest increase in exports which grew steadily, underpinned by an increase in exports to the EU.

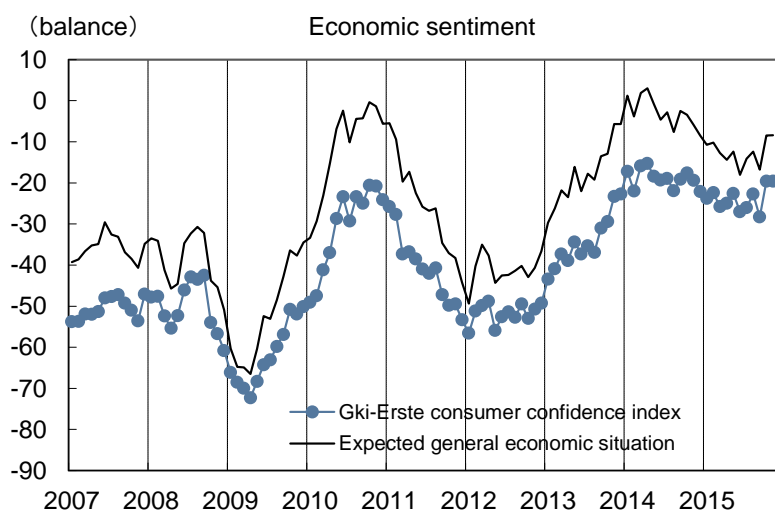


Output

Industrial production (calendar adjusted) rose by 12.7% y/y in October, showing an upward trajectory after bottoming out in July at 3.5% y/y. On the back of a recovery in exports to EU countries, output in the automobile sector expanded by 30.7% y/y, supporting overall growth. The manufacturing Purchasing Managers' Index (PMI), which is a leading indicator of economic activities, was up to 56.2 in November from 55.4, supported by an improvement in new orders.

Consumption

Growth in retail sales (calendar adjusted) in October stood at 4.6% y/y, slightly decelerating from the previous month's 5.1% y/y. A slowdown in sales of food and fuels for automobiles was a source of the deceleration. That being said, the environment surrounding private consumption remains stable. The overall labour market situation continues to be favourable; the number of employed is on the rise, in particular in the private sector. The unemployment rate is also showing a downward trend and wage growth remains relatively strong. On the back of the positive labour market situation, consumer sentiment improved to -19.2 in December, maintaining an upward trend after reaching a bottom at -28.3 in September. While the external environment – including the prolonged Russia-Ukraine conflict and the extension of sanctions against Russia – continues to be a root-cause of concerns, gradual recovery in the Eurozone economy seems to have positive impacts on overall consumer sentiment.



Source: Macrobond Hungary Economic Research (GKI), BTMU

Prices, Monetary Policy

Consumer price inflation in November rose by 0.5% y/y, up from 0.1% y/y in October. The increase of food prices accelerated to 2.0% y/y in November from 1.7% y/y in the previous month, pushing up overall inflation. The core inflation rate slowed somewhat to 1.4% y/y, the first deceleration in three months. While expansion of private consumption and rising wages created upward pressure on inflation, subdued commodity prices and low inflationary expectations have been suppressing the headline inflation rate.

On the 15th December, the MNB decided to maintain its benchmark interest rate at 1.35%. It assessed that economic growth had continued, although the pace was slightly weaker than expected. A degree of unused capacity remains in the economy, generating a disinflationary impact on the economy. Therefore, inflation is likely to remain substantially below the Bank's target.

Balance of Payments

In Q3, Hungary's current account balance registered US\$2.4billion, a substantial increase from US\$1.6billion which was recorded in the same period the previous year. An increase in exports and a shrinking deficit in the income account balance due to a fall in external debt contributed to the increase of this surplus. Meanwhile, the recovery of Hungarian exports continued, supported by the increase in exports to EU countries. Although the value of exports decreased in dollar terms due to a substantial fall of the forint against the dollar, it increased in euro terms; in the first nine months of 2015 it registered a sizable increase of 7.3% compared with the same period the previous year. Even on a volume basis, it expanded by 7.9% y/y.

On 6th of November, Moody's (a major rating agency) affirmed Hungary's government bond rating as Ba1, but changed its outlook on Hungary from stable to positive. Moody's cited the downward trend in the government debt stock, in particular, the declining share of foreign-currency liabilities as a reason for the change. In addition, they also cited Hungary's improved

economic outlook on the back of reduced exchange rate risks of both households and banking sectors.

Main Economic & Financial Indicators: Hungary

1. Annual and quarterly data

	2012	2013	2014	14/Q3	Q4	15/Q1	Q2	Q3
GDP (at current prices) (US\$ bn)	127.2	134.5	138.2	35.3	35.5	27.4	29.8	31.0
Real GDP growth (% , q/q)				0.7	0.7	0.5	0.5	0.6
(% , y/y)	-1.7	1.9	3.7	3.4	3.3	3.5	2.7	2.4
(Private consumption) (% , y/y)	-2.3	0.6	1.5	0.4	1.0	0.8	0.5	0.5
(Gross fixed capital formation) (% , y/y)	-4.4	7.3	11.2	1.0	2.9	3.1	2.8	2.7
				1.1	-1.2	-0.7	1.6	-0.8
				12.7	1.4	-5.5	5.0	-1.5
Industrial production (exc.construction) (% , y/y)	-1.8	1.1	7.6	7.0	4.2	7.9	6.2	5.8
Retail sales* (% , y/y)	-1.9	1.6	5.2	3.4	5.6	6.7	5.5	5.5
Bank credits to the private sector (% , y/y)	-13.2	-4.2	-2.3	-3.8	-2.3	-7.6	-8.0	-9.7
Consumer price index (% , y/y)	5.7	1.7	-0.2	-0.1	-0.7	-1.0	0.3	0.0
Gross average earnings growth (% , y/y)	4.7	3.4	3.1	2.5	3.7	4.1	2.9	4.5
Unemployment rate * (%)	11.0	10.3	7.9	7.7	7.1	7.6	7.2	6.6
Trade balance * (US\$ mn)	8,523	8,708	8,349	2,395	1,542	2,803	1,887	2,184
Exports (US\$ mn)	102,830	108,015	112,537	28,255	26,917	25,094	25,199	25,043
Export growth (% , y/y)	-7.5	5.0	4.2	5.0	-5.4	-11.4	-13.2	-11.4
Imports (US\$ mn)	94,308	99,307	104,188	25,860	25,375	22,291	23,312	22,859
Import growth (% , y/y)	-7.0	5.3	4.9	5.3	-3.1	-13.1	-14.6	-11.6
Current account (US\$ mn)	2,209	5,376	3,143	1,567	330	1,638	1,157	2,375
Capital and financial balances (US\$ mn)	9,109	13,568	12,070	2,900	5,399	3,030	4,189	3,681
Foreign direct investment (US\$ mn)	14,368	3,286	7,075	2,335	3,831	481	-1,516	1,151
Foreign reserves (US\$ mn)	44,506	46,389	41,901	45,059	41,901	39,463	38,615	35,961
External debt (US\$ mn)	168,293	165,005	144,477	152,662	144,477	135,751	136,781	-
Stock price index	18,060	18,652	17,932	18,031	17,270	17,709	21,993	21,744
Short-term int. rates (Interbank BUBOR 3m, %)	7.0	4.3	2.4	2.2	2.1	2.1	1.7	1.4
EU Harmonised Gov. 10y bond yields (%)	7.9	5.9	4.8	4.6	3.8	3.2	3.6	3.6
Forint/USD	225.1	223.6	232.8	235.7	247.3	274.2	276.7	280.7
Forint/Euro	289.3	296.9	308.7	312.2	308.8	309.0	305.8	312.1
Forint/GBP	356.6	349.7	383.1	393.4	391.3	415.2	424.2	434.7

2. Monthly data

	15/04	5	4	5	8	9	10	11
Industrial production (exc.construction) (% , y/y)	6.3	6.4	5.9	3.5	6.2	7.8	12.7	-
Retail sales* (% , y/y)	5.0	5.4	6.2	6.8	4.6	5.1	4.6	-
Bank credits to the private sector (% , y/y)	-7.6	-6.4	-8.0	-8.4	-9.5	-9.7	-8.6	-
Consumer price index (% , y/y)	-0.3	0.5	0.6	0.4	0.0	-0.4	0.1	0.5
Gross average earnings growth (% , y/y)	3.7	1.5	3.5	3.1	5.4	5.1	4.8	-
Unemployment rate * (%)	7.6	7.1	6.9	6.8	6.7	6.4	6.4	-
Trade balance * (US\$ mn)	474	516	897	712	508	963	680	-
Exports (US\$ mn)	8,212	7,966	9,021	8,551	7,229	9,263	9,129	-
Export growth (% , y/y)	-15.4	-17.7	-6.4	-14.1	-11.8	-8.3	-4.6	-
Imports (US\$ mn)	7,738	7,449	8,124	7,839	6,721	8,300	8,449	-
Import growth (% , y/y)	-14.0	-19.6	-10.1	-16.2	-11.8	-6.6	-8.3	-
Stock price index	21,648	22,437	21,923	22,161	22,036	21,054	21,692	22,788
Short-term int. rates (Interbank BUBOR 3m, %)	1.8	1.7	1.5	1.4	1.4	1.4	1.4	1.4
EU Harmonised Gov. 10y bond yields (%)	3.3	3.6	3.9	3.7	3.6	3.5	3.3	3.3
Forint/USD	277.0	274.7	278.4	282.9	279.9	279.2	277.1	291.2
Forint/Euro	299.4	306.2	312.0	311.5	311.6	313.1	311.3	312.3
Forint/GBP	414.6	424.5	433.3	440.2	435.9	427.9	424.9	442.3

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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