

# Macro Monitor

## Hungary

- Over the past decade, the Hungarian economy has repeatedly disappointed. At the 'core' of Hungary's problems are a dysfunctional political system and currently a government that is extremely hostile to foreign investors. The result has been that the economy has basically seen no growth for more than six years. After a deep recession in 2009 and a moderate recovery in 2010 and 2011, the Hungarian economy fell back to recession in 2012 with no evidence of stabilisation so far. Very weak domestic demand, investments and lacklustre export growth weigh on the economy. Looking ahead, we are not very upbeat on the prospects for economic activity over the next three years. In 2013, we expect the economy only to stabilise with average GDP growth of 0.2%. In 2014, we do not expect GDP growth to exceed 2%, expecting GDP growth of around 1.1%, with around 2.2% in 2015.
- Inflation in Hungary was almost double the 3% official inflation target last year. Given the lacklustre growth in the Hungarian economy, elevated inflation was to a large extent a reflection of the deteriorating supply-side of the economy rather than demand-led inflationary pressures. Looking ahead, even though we expect inflation to moderate this year, it is likely to remain somewhat above the 3% inflation target. Given the expected weakness in private consumption and hence the absence of any demand pulled inflationary pressures, we expect inflation to remain mostly supply-side driven inflation.
- We still expect private consumption in particular to be one of the main drags on growth this year. Even though investments should still be in the red this year, we should see some improvement and stabilisation over the year.
- On the back of the sluggish economic performance, we believe the labour market will continue to deteriorate. We expect unemployment to rise close to 12% this year.

### Macro forecasts

	2011	2012	2013	2014	2015
GDP (% y/y)	1.6	-1.6	0.2	1.1	2.2
GDP deflator (% y/y)	3.1	2.7	3.8	4.0	4.2
Private consumption (% y/y)	0.5	-2.0	-2.2	0.5	1.8
Fixed investments (% y/y)	-3.6	-4.7	-1.8	0.6	1.8
Unemployment (%)	10.8	10.5	11.9	12.7	12.9

Source: Reuters EcoWin, Danske Bank Markets

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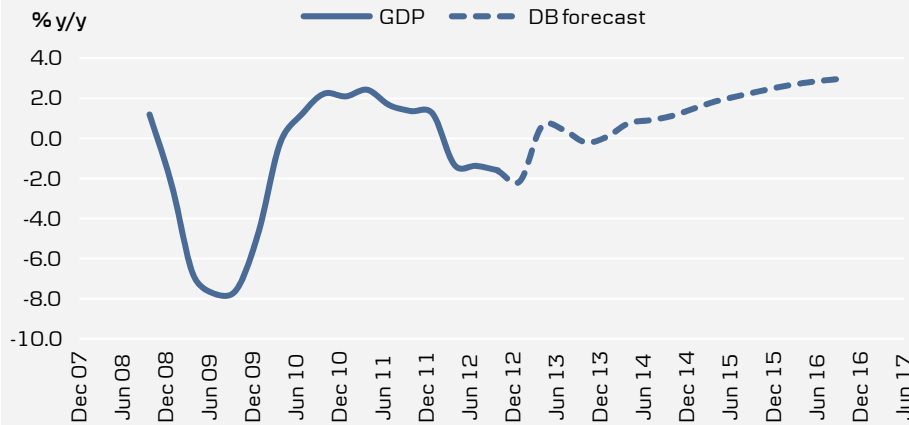
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# Economic growth

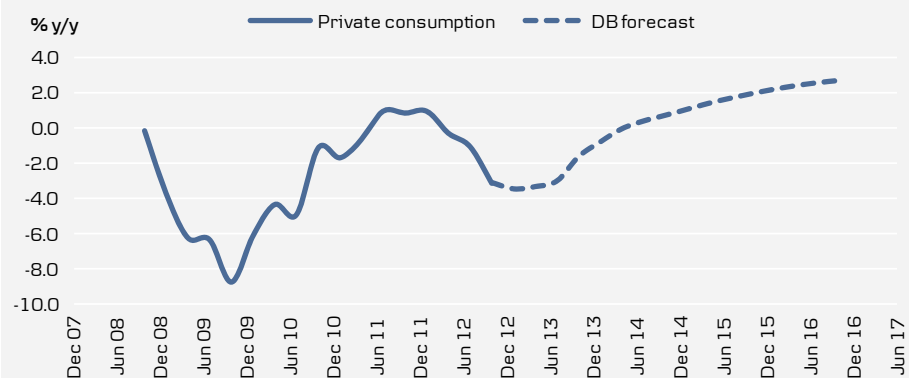
## Gross domestic product



Source: Reuters EcoWin, Danske Bank Markets

- The Hungarian economy fell into recession in 2012 and there is no evidence of any stabilisation yet.
- Over the next three years, we expect economic growth to be weak. In 2013, we see only economic stabilisation with GDP growth around 0.2%. In 2014, we believe GDP growth should be around 1%.

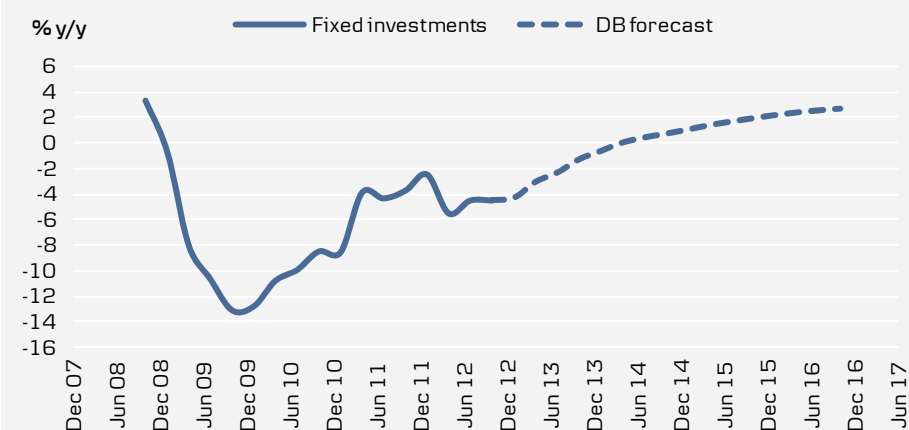
## Private consumption



Source: Reuters EcoWin, Danske Bank Markets

- As fiscal policy remained tight and economic activity plunged, private consumption was depressed in 2012.
- Going into this year, we do not expect a revival in private consumption. We expect consumers' appetite for spending to remain depressed in 2013 and to recover in 2014 and 2015.

## Investments

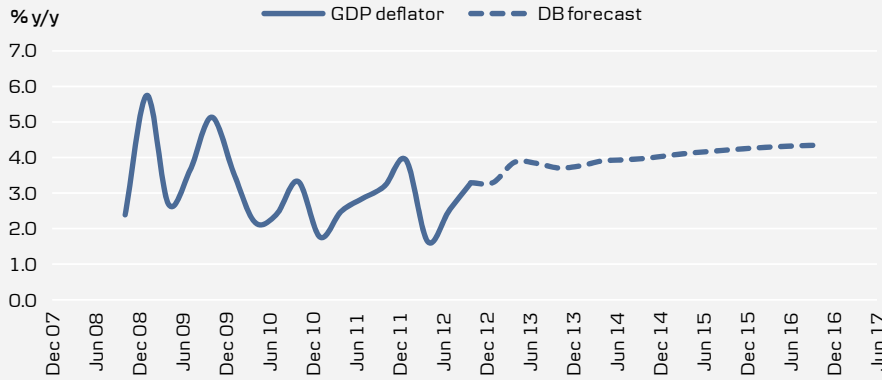


Source: Reuters EcoWin, Danske Bank Markets

- Investments were among the main drags on growth in 2012. In order to maintain a tight fiscal stance, the government put strong pressure on business in Hungary.
- Looking ahead, we expect investment performance to remain weak as we believe the Hungarian government will continue to pursue its business unfriendly policies.

# Prices

## GDP deflator

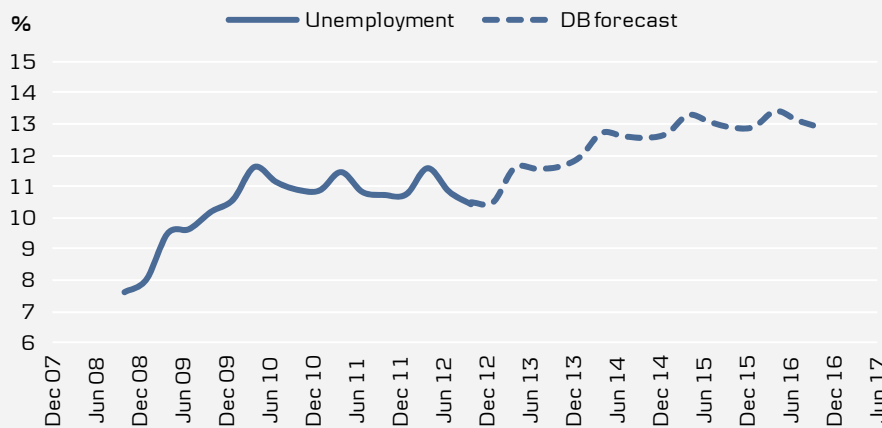


Source: Reuters EcoWin, Danske Bank Markets

- Despite weak private consumption, we believe supply-side driven inflation will continue to be present. Even though inflation should moderate throughout the year, we believe it will still hover somewhat above the official inflation target of 3%.

# Labour market

## Unemployment (not seasonally adjusted)



Source: Reuters EcoWin, Danske Bank Markets

- Labour market conditions continued to deteriorate amid economic contraction last year.
- Given that economic activity remains subdued and we only see some stabilisation this year, we do not expect any improvement in the labour market conditions this year. We expect unemployment to continue rising close to 12%.

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All EM research is available on Bloomberg DMEM

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