

Hungary Business Forecast Report Q1 2015

<https://marketpublishers.com/r/H5CBD745E35EN.html>

Date: October 2014

Pages: 52

Price: US\$ 1,195.00 (Single User License)

ID: H5CBD745E35EN

Abstracts

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Core Views

Having been propped up by fiscal stimulus in 2013 and 2014, real GDP growth in Hungary will slow substantially in the coming quarters as government spending is scaled back. Hungary's domestic demand recovery will trail that of its Central European peers due in part to a crippled banking sector, while external demand will remain weak on the back of a stalled eurozone recovery.

We believe that the threat of EU structural funding cuts – which Hungary has become increasingly dependent on – will be sufficient motivation for the government to pursue an austerity programme to keep the country's deficit within EU limits in the coming years. However, public debt will remain well above emerging European averages, and Hungary will remain in a precarious fiscal position with minimal resilience to shocks.

Hungary's current account surplus peaked in 2013 but will remain sizeable in the coming years, averaging 3.7% of GDP between 2015 and 2017. We forecast a long-term narrowing of the surplus on the back of weak external demand and a gradual but sustained loss of competitiveness. Rising domestic inflation and developed state interest rate hikes will force the Hungarian national bank to hike rates by end-2015, earlier than its intended goal of 2016. The bank's pro-growth stance and policy coordination with the government pose minimal risks in the short term, as global monetary conditions remain loose. However, these factors will damage its credibility over the long term, undermining its ability to achieve price and financial stability.

Alleged infringements of civil liberties in Hungary will leave the government ostracised from decision-making at an EU level. This isolation will pose little threat to government

stability given the strong popular support the government enjoys, but it does pose a threat to Hungary's influence on regional policy.

Major Forecast Changes

No major forecast changes.

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Long-Term Political Outlook

Western Convergence Story Will Continue

Our core view is for Hungary to continue to converge both economically and politically with Western Europe over the next decade.

The country will face substantial challenges, including the continuing rise of far-right parties, sustained poor relations between ethnic Hungarian and minority groups, as well as rising fiscal pressure from an ageing population.

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Having been propped up by fiscal stimulus in 2013 and 2014, real GDP growth in Hungary will slow substantially in the coming quarters

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Hungary's current account surplus peaked in 2013 but will remain sizeable in the coming years, averaging 3.7% of GDP from 2015-

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