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Hungary Business Forecast Report Q2 2014

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Abstracts

Core Views

The Hungarian economy will continue on a slow path of economic recovery in 2014, with the major contributions to growth coming from net exports and private consumption. Exports are set to rise as the German economy is boosted by rising consumption, which in turn will boost demand for goods made in Hungary such as autos and electricals. Hungarian consumption will rise on the back of low inflation, rising nominal wages and low interest rates. As a result we forecast real GDP growth of 1.7% and 1.9% in 2014 and 2015 respectively.

The governing centre-right Fidesz Party government, led by Prime Minister Viktor Orban, is set to retain power in Hungary's general election, due in April or May Fidesz commands a significant lead over the main opposition Socialist Party in all national opinion polls, even if a potential centre-left electoral alliance is formed. However, Fidesz is likely to lose its supermajority in the National Assembly, meaning that it will have to rely on opposition support if it seeks to amend the constitution.

Hungary's central bank will hike rates to 3.50% by end-2014 from 3.00% in January, as consumer price inflation rises on the back of increasing demand-pull pressures, and the effect of state-mandated energy price cuts wearing off. As a result we forecast consumer price inflation to rise to 3.0% year-on-year (y-o-y) by end-2014 and 3.6% y-o-y by end-2015.

Major Forecast Changes

Hungary is unlikely to re-enter the EU's Excessive Deficit Procedure (EDP) in 2014 or 2015, with the government placing significant political capital on the country successfully leaving the EDP in July 2013. As a result we have revised down our forecast for the budget deficit to 3.0% and 3.1% in 2014 and 2015 respectively, from 3.1% and 3.3% previously.

Key Risks To Outlook

We currently forecast the forint to appreciate over the course of 2014 and into 2015, with our projections for the currency to average HUF285.00/EUR and HUF280.00/EUR respectively. However, with interest rates currently at a record low (3.00% in January) and the government’s anti-business rhetoric scaring away investors we could see the currency remain around the HUF300.00/EUR level, or even depreciate further if the business environment does not show signs of improvement.

The leadership of the Hungarian central bank is largely made up of Fidesz party appointees. If the government deems it politically expedient, or if the economic recovery grinds to a halt, we could see rates remain around record lows.

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