+44 20 8123 2220
info@marketpublishers.com

Hungary Business Forecast Report Q4 2014

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Abstracts

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Core Views

Real GDP growth will remain robust in 2014 and 2015, increasing 2.4% and 2.1% respectively on the back of increased government current and capital expenditure. However, increases in economic activity will be constrained as the government budget deficit approaches the EU's 3.0% of GDP limit.

The government's new advertising tax and its opposition to the candidacy of Jean-Claude Juncker as European Commission President will strain its relations with the EU over the coming quarters. Meanwhile, Budapest's relatively pro-Russia stance over Ukraine will leave Hungary relatively isolated from its regional peers. Monetary policy will remain loose until Q115 at the earliest on the back of subdued inflationary pressures and the dovish bias of the central bank. In 2015 we expect to see rate hikes as a combination of base effects wearing off and rising demand-pull pressure push up inflation, and a tightening of US and UK monetary policy reduces the attractiveness of Hungarian assets.

Major Forecast Changes

As a result of the elevated Q114 real GDP growth print (3.5% y-o-y) and our expectations for government current and capital spending to remain elevated in H214 we have revised up our real GDP forecast to 2.4% in 2014 from 1.9% previously, while we hold to our 2015 growth forecast of 2.1%.

Given the extent of rate cuts so far (down to 2.30% in June), the effect of more utility price cuts (at least two more in H214), and the dovish implicit forward guidance provided by the Monetary Council in June we have revised down our interest rate forecasts to 2.10% by end-2014, and 3.00% by end-2015 as inflationary pressures begin to reappear.

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Hungarian monetary policy will remain loose until Q115 at the earliest on the back of subdued inflationary pressures and the dovish bias
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