Economic Alert iQ

First Citizens
Research & Analytics

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Economic Alert: Hungary's Outlook Revised To Positive On Financial Sector Improvements; with the long and short-term credit rating affirmed at 'BBB-/A-3' by Standard & Poor's Rating Agency (S&P)

- The outlook revision reflects S&P's expectation that Hungary's improving economic and external metrics might support ongoing improvements in the financial sector and thus strengthen the monetary transmission channel.
- After five years of credit-less economic recovery, S&P expect loan growth to resume and nonperforming loans (domestic loans more than 90 days overdue as defined by S&P Global Ratings) to stabilize at about 10%, much lower compared to historical peak levels.
- This is driven by a gradual recovery in demand for new loans, the recent recovery in real estate prices, and measures by the Hungarian National Bank (MNB) to stimulate lending as well as its prudent regulatory efforts.
- Strong first quarter 2017 results (GDP expanded by 4.2% year-on-year) have increased the possibility of higher economic growth for 2017 and 2018.
- However, over the medium term, S&P expects Hungary's structural growth challenges such as poor demographics; worsened by net emigration, a large and encroaching public sector, as well as weaknesses in the business environment, low productivity, and an overheating labor market will slow the pace of average GDP growth to just under 2.5% per year between 2018 and 2020.
- Strong private consumption and elevated wage growth have pushed up core inflation in the first seven months of 2017 to over 2.5%. However, cheaper oil, low administrative prices, and tax cuts have kept the headline inflation, measured by the Consumer Price Index, well below MNB's target of 3%.
- Despite the government's intentions to continue its fiscal stimulus via tax cuts and higher spending in the 2017 budget, S&P assumes that going forward, fiscal slippage will be negligible, resulting in general government deficits of 2.3% of GDP on average in 2017-2020.
- S&P forecasts that general government debt, net of liquid assets, will reduce gradually to about 66% of GDP in 2020 from 70.4% in 2016.

Selected Indicators	2013	2014	2015	2016	2017f	2018f	2019f	2020f
Real GDP growth (%)	2.1	4.0	3.1	2.0	3.5	2.9	2.5	2.4
Real Export Growth (%)	4.2	9.8	7.7	5.8	4.2	5.1	5.0	4.6
Unemployment Rate (%)	10.2	7.7	6.8	5.1	4.3	4.0	3.9	3.9
General government balance/GDP (%)	(2.6)	(2.1)	(1.6)	(1.8)	(2.5)	(2.3)	(2.2)	(2.2)
General government debt/GDP (%)	76.7	75.7	74.7	74.1	72.5	71.2	70.0	68.5
Net general government debt/GDP (%)	73.0	71.6	71.8	70.4	69.0	67.9	66.9	65.6
General government interest /revenues (%)	9.7	8.5	7.3	7.0	6.1	5.9	5.9	5.9
CPI growth (%)	1.7	0.0	0.1	0.4	2.5	3.0	3.5	3.5
Current account balance/GDP (%)	3.8	2.1	3.4	5.5	3.7	3.2	3.0	2.3
Current account balance/CARs (%)	4.0	2.1	3.4	5.4	3.8	3.2	3.0	2.3

Source: Standard & Poor's

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