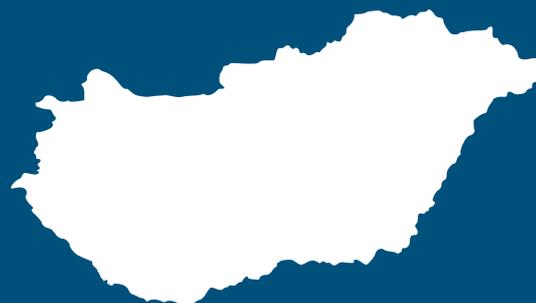


Hungary



Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecasts	
								2021	2022
GDP growth (%)	1.6	3.8	2.1	4.5	5.4	4.6	-5.1	3.9	4.0
CPI Inflation (%)*	3.2	-0.1	0.4	2.4	2.8	3.4	3.3	3.4	3.0
Fiscal balance (% of GDP)	-3.5	-2.0	-1.8	-2.4	-2.1	-2.1	-8.4	-5.4	-4.3
Public debt (% of GDP)	78.6	75.8	74.9	72.2	69.1	65.4	78.0	77.9	77.2
Reference rate (%)*	5.0	1.6	1.0	0.9	0.9	0.9	0.7	0.6	0.8
Exchange rate (HUF/USD)*	218.6	280.4	282.8	272.8	271.5	291.4	309.0	303.0	295.0
Current balance (% of GDP)	1.4	2.4	4.5	2.3	0.0	-0.8	-1.6	-0.9	-0.6
External debt (% of GDP)	124.6	102.2	91.2	82.4	77.8	72.7	78.9	87.6	89.3

Note: * Annual average.

Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- The persistence of the pandemic is increasing the risk of a slower than expected economic recovery in Hungary.** The number of cases of COVID-19 is increasing the risk of economic activity not returning to normal until the end of Q2, when it plans to lift the state of emergency. Although it was not one of the hardest hit economies in 2020 (there was a 5.1% fall in GDP, compared with -6.2% in the EU as a whole), the way that Hungary has started 2021 may leave it somewhat behind in the recovery process. Furthermore, the depreciation of its currency, the forint, and the increase in inflationary pressures suggest that the Hungarian Central Bank (MNB) may raise official rates sooner rather than later. At a political level, it is likely that the current government that is led by Viktor Orban will continue to be at odds with the EU on key points such as the workings of internal democratic controls. In the medium to long-term, the country needs to make certain structural reforms to enable it to increase the productivity of its economy and bring its national income per capita in line with the EU.
- Real shock of COVID-19.** Although the rate of COVID-19 cases in Hungary was not particularly high in the first wave during the spring of 2020, its GDP suffered one of the worst declines in the EU during Q2 of that year. This was mainly due to its exposure to the global value chains and tourism. Towards the end of last year, the impact of the pandemic was indeed more severe and once again forced the authorities to tighten the lockdown measures to similar levels to the first wave. However, on this occasion there was a smaller drop in GDP thanks to the resilience of the industrial sector which, as in the rest of the EU, was able to weather the restrictive measures on mobility better than the service industries. In 2021, the pandemic situation is not much better and, in fact, Hungary is one of the countries with the highest number of cases at the time of completing this *Country Outlook*, so the economic recovery is unlikely to start until the second half of the year (the state of emergency was declared until 15 June 2021). Nevertheless, it is important to highlight the good vaccination rate in Hungary, as it is the one of the EU countries with the highest percentage of vaccinated people. This is because, in addition to the vaccines acquired together with the EU, Hungary also separately bought the Sinopharm and Sputnik V vaccines, which are produced in China and Russia, respectively.
- Economic policy response**
 - Domestic fiscal policy.** The Hungarian government implemented various fiscal measures with the aim of mitigating the pandemic's impact on the economy. They include policies aimed at keeping workers in their jobs and increasing healthcare spending. However, as a percentage of GDP, the increase in public expenditure and public credit guarantees are somewhat below the EU average.

Outlook (continued)

- › **European policy.** During the crisis, the EU approved a set of aid packages to member states. These measures include loans from the SURE fund to pay for work schemes (Hungary has received over 500 million euros) and the European Recovery Plan (or NGEU), from which Hungary may receive around 7 billion euros (almost 5% of GDP in 2019) that are non-refundable between 2021 and 2026.
- › **Monetary policy.** The Hungarian Central Bank (MNB) has implemented an expansive monetary policy since the start of the pandemic. Since April 2020, it has reduced the official interest rate by 30 bp to an historic low (0.60%). It also launched a public and corporate debt purchasing programme in the secondary market whose limit, after being raised a number of times, is set at two billion Hungarian forints (4.3% of GDP). However, due to the inflationary pressures and the weakness of its currency, in September 2020 the MNB raised the one-week deposit facility interest rate (which is different to the one above) by 15 bp, to 0.75%.
- **Evolution of the exchange rate.** Since the start of 2020, the Hungarian forint depreciated against the euro by almost 10%. This weakness is partly due to the widespread risk aversion in the financial markets during the weeks when they were under the most stress, the current situation regarding the pandemic in the country and the doubts regarding the political will in Hungary for a less confrontational relationship with the EU. From here on out, aided by a more restrictive monetary policy aimed at containing inflation, the forint is likely to gain some ground on the euro, although it will remain at weaker levels than the average in recent years.

Main risks

In addition to the macroeconomic risks shared with the rest of the EU (worse than expected progression of the pandemic and delay in the distribution of funds from the NGEU), the main source of risk for Hungary is **political risk**:

- The current government (Fidesz) is not expected to have any problems in seeing out the current legislative term in 2022. However, recent polls suggest that fewer people intend to vote for it, which could weaken its two-thirds majority in Parliament (albeit without losing its majority in the chamber). In any event, it is likely that the party led by Viktor Orban will continue with its policy of creating tension with the EU.
- The European institutions do not approve of some of the decisions made by Orban, as they pose a threat to the democratic control mechanisms. In fact, the European Parliament voted in 2018 to initiate proceedings against Hungary (including disciplinary actions) for disrespecting fundamental EU values. In turn, during the NGEU approval process, Hungary - together with Poland - blocked the implementation of the programme because they believed that it would give the EU the tools to control the country's democratic mechanisms.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	BBB	15/02/19	Stable	28/04/20
MOODY'S	Baa3	04/11/16	Positive	25/09/20
FitchRatings	BBB	22/02/19	Stable	22/02/19

■ Indicates that the country is rated as "investment grade".

□ Indicates that the country is not rated as "investment grade".

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