



**30 MAY 2016**

## **ECONOMIC GROWTH SLOWING DOWN – HOUSEHOLD CONSUMPTION ACCELERATING**

**In the first quarter of 2016 only the GDP growth rate of Greece was slower than that of Hungary. Because of this data, which was worse than expected, GKI lowered its growth forecast for 2016 from 2.3 per cent to 2 per cent; however, the actual growth rate can be even lower than this. Owing to the fall in construction, the decline in investments will be more significant, around 8 per cent. However, due to the rapid increase in earnings, the expansion of consumption may be 3.5 per cent.**

While the growth rate in the EU increased from 0.3 per cent to 0.5 per cent compared to the previous quarter, it declined by 0.8 per cent in Hungary (unparalleled in the EU). Although industrial production grew by only 0.3 per cent in the first three months of 2016, it was the fifth consecutive month that it declined compared to the previous month. Vehicle production amounting to nearly one-third of industrial output declined by 1.6 per cent. Based on the communication of car manufacturers and county statistical data, it can be assumed that the problems relate primarily to Audi. However, the general nature of industrial deceleration can be seen in the fact that decline was recorded in 7 manufacturing sectors of 13. The second largest industrial sector, electronics industry expanded the fastest. Construction output in the first quarter of 2016 fell by 27.6 per cent (civil engineering by more than 50 per cent and building industry by nearly 20 per cent). In addition to the weak start at the beginning of 2016, it is alarming that at the end of March the volume of contracts concluded was 25 per cent lower than a year before. The volume of contracts for houses and offices was around 60 per cent higher and that for other structures almost 50 per cent lower. However, it is favourable that the volume of new contracts signed in March was almost 50 per cent higher than last year. Although based on these factors a significant easing of the rate of decline can be expected during the rest of the year, a decrease of about 10 per cent is likely in 2016.

Compared to last year, the expansion of retail sales slowed down (to 4.3 per cent); however, it remained dynamic. The slowdown is the result of the phasing out of the whitening effect, whereas the dynamism can mainly be explained by the rapid expansion of purchasing power. Real earnings rose by 7.4 per cent in the first quarter of 2016: by 6.7 per cent in the business sector and by 7.5 per cent in the public sector (by about 11.5 per cent with the exclusion of those employed in public workfare schemes). This may boost consumption whose growth rate can be expected to be around 3.5 per cent in 2016 compared to last year's 2.6 per cent.

Consumer prices rose by only 0.3 per cent in the first four months. The 0.3 per cent rise in April was the tenth highest in the EU (the average was 0.2 per cent deflation) and the 0.8 per cent growth over March was the second fastest. The National Bank of Hungary continued and probably completed its period of interest rate cuts in May, and the current 0.9 per cent base rate is expected to persist for some time. The upgrading of Hungary's government debt by Fitch did not affect substantially the weakness of the forint. Although further upgradings are questionable due to the slower-than-expected growth, the more relaxed 2017 budget and the scandals surrounding the National Bank of Hungary, they will eventually happen.

The general government deficit in the first four months was very favourable; it has never been so low in the last one and half decades. However, tensions are foreshadowed by the fact that some appropriations (for example, in education) in the 2016 budget were set higher than in the proposed 2017 budget. Despite the favourable budgetary developments, the ratio of government debt to GDP at the end of the first quarter of 2016 increased by 1.6 percentage points compared to the end of 2015 as the artificially depressed reserves had to be replenished.

## FORECAST OF GKI FOR 2016

Description		2013	2014	2015	01-03 2015	2016 forecast
1	GDP (%)	101.9	103.7	102.9	100.9	102
2	Industrial production (%)	101.1	107.7	107.5	100.3	104
3	Investments (%)	107.3	111.2	101.9	-	92
4	Construction services (%)	109.7	113.4	103.0	72.4	90
5	Retail trade turnover (%)	101.6	105.2	105.8	104.7	104.5
6	Exports (current prices in euro, %)	101.7	103.9	107.4	101.6	106
7	Imports (current prices in euro, %)	102.0	104.3	105.6	102.3	105
8	Foreign trade balance (EUR billion)	6.6	6.3	8.1	2.5	9
9	Balance of the current and capital account (EUR billion)	7.6	6.0	9.5	2.0	8.0
10	Average exchange rate of euro (in HUF)	296.9	308.7	309.9	311.9**	315
11	General government deficit* (HUF billion)	929.2	825.7	1218.6	144.9**	1100
12	Index of average gross earnings	103.4	103.0	104.2	106.0	106
13	Consumer price index	101.7	99.8	99.9	100.3**	100.8
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	100.4	99.3	100.9	100.2**	101.6
15	Rate of unemployment (at the end of the period, %)	9.1	7.1	6.2	5.8***	5.9

\* Cash flow basis, without local governments

\*\* January – April 2016

\*\*\* February – April 2016

Sources of actual data: CSO, NBH, NGM

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