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## **GROWTH FASTER THAN EXPECTED**

**In the first quarter of 2017, Hungarian GDP expanded by 4.1 per cent, faster than expected. Therefore, GKI revised its growth forecast upwards to an annual growth rate of at least 3.5 per cent before gaining detailed data. Construction and industry grew faster than previously thought, whereas the growth rate of trade was slower. This is particularly surprising in the light of extremely fast increase in wages.**

In the first quarter of 2017 the Hungarian growth rate was much higher than the EU average; however, it was not outstanding in the CEE region. Although the Czech, Bulgarian and Slovakian growth rates were lower than the Hungarian one, the Romanian, Polish, Lithuanian and Latvian growth rates were higher. Construction increased spectacularly in the first quarter in Hungary, by 25 per cent. Since this increase followed its hitting bottom, a more modest growth rate can be expected during the year. The expansion of the automotive industry was slightly behind the average of the manufacturing industry. The growth rate of the machine and electronics industry was the fastest. Following its near stagnation in 2016, the growth rate of manufacturing exports accelerated to 7 per cent, and that of domestic sales rose by nearly 3 per cent after their decline in last year.

However, retail sales grew by only 3.4 per cent in the first quarter, slower than last year. This is very low even if we take into account that Easter, together its increased turnover, was in April in 2017. Meanwhile, real wages were up by 8 per cent, and the number of employees increased by 2.5 per cent. Thus, it is likely that actual purchasing power increased much slower than real earnings. This was partly due to the temporary decrease in the real value of pensions, and to a larger extent to the fact that, in order to counterbalance the forced minimum wage increase, the amount of untaxed wages decreased, mainly in smaller companies. Although the number of homes completed in the first quarter increased almost to one-and-a-half times, it totalled only 2000 units. In Budapest, however, housing construction halved, and as a result the proportion of homes built by businesses in Hungary decreased from 50 per cent to 40 per cent. However, a change can be expected in this sphere: 10 thousand new homes were built in 2016, 15 thousand can be expected in 2017 and 20 thousand in 2018.

Inflation was virtually eliminated between 2014 and 2016. Mainly as a result of rising fuel prices inflation started to increase in the last months of 2016, reaching its peak of 2.9 per cent in February 2017. In the decrease of the average rate of inflation (prices grew by only 2.2 per cent in April) fuel prices played an important role, too. Inflation is expected to be around 2.5 per cent in 2017, with some further fluctuations.

The unemployment rate for February–April 2017 was 4.6 per cent, 1.3 percentage points lower than a year earlier. However, it was 0.2 percentage points higher than in the last quarter of 2016. Although this is natural in winter, there was no such rise in the rate last year. The “real” unemployment rate is still around 7 per cent.

## THE FORECAST OF GKI FOR 2017

| Description   | 2014  | 2015   | 2016  | 2017    |          |
|---|-------|--------|-------|---------|----------|
|   |       |        |       | Q1      | forecast |
| 1 GDP (%)   | 104.0 | 103.1  | 102.0 | 4.1     | 103.5    |
| 2 Industrial production (%)   | 107.7 | 107.5  | 100.9 | 107.8   | 105      |
| 3 Investments (%)   | 119.3 | 103.8  | 80.0  | -       | 108      |
| 4 Construction services (%)   | 113.4 | 103.0  | 81.2  | 124.7   | 115      |
| 5 Retail trade turnover (%)   | 105.2 | 105.8  | 104.5 | 103.4   | 106      |
| 6 Exports (current prices in euro, %)   | 104.0 | 107.0  | 102.9 | 112.6   | 108      |
| 7 Imports (current prices in euro, %)   | 104.7 | 104.6  | 101.5 | 114.6   | 110      |
| 8 Foreign trade balance (EUR billion)   | 6.3   | 8.6    | 9.9   | 2.5     | 8.5      |
| 9 Balance of the current and capital account (EUR billion)                                      | 6.1   | 8.7    | 6.1   | -       | 7.5      |
| 10 Average exchange rate of euro (in HUF)   | 308.7 | 309.9  | 311.5 | 309.7** | 313      |
| 11 General government deficit* (HUF billion)  | 825.7 | 1218.6 | 848.3 | 121.5** | 1300     |
| 12 Index of average gross earnings  | 103.0 | 104.2  | 106.1 | 11.0    | 109      |
| 13 Consumer price index   | 99.8  | 99.9   | 100.4 | 102.5** | 102.5    |
| 14 Consumer price index at the end of the period (Corresponding month of the previous year=100) | 99.3  | 100.9  | 101.8 | 102.2** | 102.5    |
| 15 Rate of unemployment (at the end of the period, %)   | 7.1   | 6.2    | 4.4   | 4.6***  | 4.3      |

\* Cash flow basis, without local governments

\*\* January-April 2017

\*\*\* Average, February – April 2017

Sources of actual data: CSO, NBH, NGM

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