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CONSUMPTION OF HOUSEHOLDS GROWS RAPIDLY THIS YEAR AS WELL

As GDP, earnings and consumption grew faster than previously thought, GKI raised its 2018 GDP growth forecast from 3.8 per cent to 4 per cent. Although the foreign trade surplus is decreasing due to the rapid rise in domestic consumption, the external balance will continue to improve as a result of mounting EU transfers. Owing to the substantial advance payments from the general government necessary for accelerating EU transfers, the general government deficit in cash flow terms will be high and the decline in government debt will be modest. The EU is expecting an adjustment from the Hungarian government due to a high deficit compared to the favourable economic situation. Although the risk of escalating global trade war has declined, the Iranian, Turkish, and Italian situations have already had negative effects on energy prices and exchange rates.

The growth of industry and, in particular, construction slowed down spectacularly in March. Following an average monthly industrial growth rate of 5.4 per cent in the first two months of 2018, it dropped by 2.4 per cent compared with the previous year, whereas the performance of construction increased by only 1.4 per cent after 35 per cent in the first two months. Although the fewer number of working days in March due to long weekends played a part in this, the slowdown was notable even if this factor were taken into account. Although much more modestly than in 2017 (by 30 per cent), construction is expected to increase fast in 2018 as well, by around 10 per cent. Despite the uncertainties in the automotive industry, it is still possible that the growth rate of industry in 2018 will reach last year's 5 per cent. Early Easter boosted retail trade in March: it increased by 8.5 per cent, nearly 1.5 percentage points faster than in the first two months. The revenue of hotels grew by 17 per cent in March, almost twice as fast as in the first two months. The consumption of households will increase by 4-4.5 per cent in 2018.

Although the growth rate of gross earnings is slowing, it is still fast. Real earnings are expected to grow by about 7 per cent in 2018, which is still very high, though less than the two-digit increase last year. Unemployment fell by 0.7 percentage points to 3.9 per cent in one year. In addition, the number of those employed in public workfare schemes decreased by more than 20 per cent. The unemployment rate is one of the lowest in the EU. However, if those employed in public workfare schemes were considered unemployed, the Hungarian unemployment rate would be around 7.4 per cent, higher than the EU average.

Inflation accelerated to 2.3 per cent in April, whereas the average of the first four months was 2.1 per cent. The prices of consumer goods went up faster; a new tax increase is expected for tobacco products from July. The rise in food prices is also above average. Fuel prices began to rise in April, and gained momentum in May due to the rise in world oil prices and the weakening of the forint. However, the price per litre of petrol at around HUF400 is still well below its HUF450 price six years ago. The rate of inflation is projected to be around 3 per cent in 2018. The weakening of the forint was expected as the Fed's interest rate increases were not followed by the National Bank of Hungary, its rapid and spectacular occurrence was mainly due to the increasing distrust towards Turkey.

Although the general government deficit calculated according to the European methodology will probably remain below 3 per cent of GDP, the so-called structural deficit, which takes into account the actual state of the business cycle in the economy, will be considerably higher than the rate promised to the EU. In

addition, the reduction of government debt relative to GDP by about 0.5 percentage points to 73 per cent will also be smaller than expected by the EU.

THE FORECAST OF GKI FOR 2018

Description	2015	2016	2017	2018	
				01-03	forecast
1 GDP (%)	103.4	102.2	104.0	104.4	104
2 Industrial production (%)	107.5	100.9	104.8	102.5	105
3 Investments (%)	107.1	85.1	116.7	-	109
4 Construction services (%)	103.0	81.2	129.6	119.0	110
5 Retail trade turnover (%)	105.8	104.7	104.9	107.3	106
6 Exports (current prices in euro, %)	107.0	103.4	108.2	103.4	106
7 Imports (current prices in euro, %)	104.6	102.3	111.1	103.9	107.5
8 Foreign trade balance (EUR billion)	8.6	9.7	8.1	2.1	7
9 Balance of the current and capital account (EUR billion)	8.9	7.0	5.1	-	7
10 Average exchange rate of euro (in HUF)	309.9	311.5	309.2	312.5**	315
11 General government deficit* (HUF billion)	1218.6	848.3	1974	1081.4**	1400
12 Index of average gross earnings	104.2	106.1	112.9	112.4	110
13 Consumer price index	99.9	100.4	102.4	102.1**	103
14 Consumer price index at the end of the period (corresponding month of the previous year=100)	100.9	101.8	102.1	102.3**	103.5
15 Rate of unemployment (at the end of the period, %)	6.2	4.4	3.8	3.9***	3.8

* Cash flow basis, without local governments

** January-April 2018

*** Average of Q1 2018

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