

**3 DECEMBER 2018**

## **GDP GROWTH IS FAST BUT INFLATION IS ALSO FAST**

After a GDP growth rate of 4.8 per cent in the third quarter, which was one of the fastest rate in the EU, GKI, similarly to other forecasters, raised its GDP forecast, too (to 4.5 per cent). At the same time, GKI maintains its expectation of slowing down to 3.2 per cent in 2019. The reason for this is that the stimulating effects of EU transfers is decreasing, global economic growth is precarious, and there is still no prospect of improving competitiveness. Inflation is accelerating in 2018, and external and internal equilibria are deteriorating. In this regard, no change can be expected in 2019 either.

Of the EU member states only Poland's and Latvia's growth rates were higher than the Hungarian one in the third quarter of 2018. This can also be expected for the whole year, though after an average growth rate of 4.7 per cent in the first three quarters, GKI expects only 4 per cent in the fourth quarter. Although the growth rate of investments accelerated in the third quarter of 2018, GKI expects a marked slowdown in the last quarter, usually responsible for 40 per cent of the annual output. In 2018 construction and retail sales will expand fastest (by at least 20 per cent and 6-7 per cent, respectively). In 2019 construction will slow down significantly. Industrial production will grow less dynamically in 2018 (by 3.5 per cent) than last year, even if it improves somewhat in the last quarter. Due to the deteriorating European and, in particular, German economic activity, repeating this year's growth rate in 2019 is questionable.

Growth in gross earnings continuously slowed down quarter by quarter in 2018 (by almost a total of 2 percentage points). However, inflation is accelerating, thus the growth rate of real earnings is expected to be slightly lower than last year's double-digit rate; nevertheless, it remains very high (over 8 per cent). Although this will decrease to 4-5 per cent next year, due to mainly the slowdown in wage growth, it remains high. The rate of inflation reached 3.8 per cent in October, which is the highest in the EU after Estonia and Romania. Owing to diminishing oil prices in the world market, the inflation rate may decrease during the rest of the year. As a result of accelerating wage growth and weak forint, the average increase of the consumer price index will be close to 3 per cent in 2018 and 3.5 per cent in 2019. While in the first quarter of 2018 one euro was worth an average of only HUF311, in August-October it went up to HUF325.

Although unemployment is still decreasing compared to the same period of the previous year, its moderation stopped relative to the previous months. Indeed, the average in the third quarter was already 0.2 percentage points higher than in the second quarter. There was no change in October. The number of those involved in public workfare schemes is decreasing; this is a favourable trend. The official unemployment rate is the fourth lowest in the EU, after the Czech Republic, Germany and Poland. It is favourable that the unemployment rate (including those involved in public workfare schemes) is now lower than the EU average. However, employment abroad assumes an important role in the improvement.

Although the accrual-based general government deficit was only 0.4 per cent of GDP in the first three quarters of 2018 and tax revenues are very favourable, the annual cash-flow deficit may be HUF500bn higher than expected (around HUF1,900bn). This is primarily the consequence of the domestic prepayments of EU transfers. In 2018, due to, among others, the EU's call for deficit reduction, the general government deficit will be slightly below the planned 2.3 per cent of GDP. However, in 2019, due to a marked slowdown in the economy, the deficit relative to GDP is expected to slightly exceed the planned 1.7 per cent.

## FORECAST OF GKI FOR 2018-19

Description	2016	2017	01-09, 2018	2018	2019
				forecast	
1 GDP (%)	102.3	104.1	104.7	104.5	103.2
2 Industrial production (%)	100.9	104.8	103.2	103.5	103.0
3 Investments (%)	88.3	118.2	116.9	112	105
4 Construction services (%)	81.2	129.6	122.8	120	105
5 Retail trade turnover (%)	104.7	104.9	106.5	106.5	104
6 Exports (current prices in euro, %)	103.4	108.2	104.2	105	105
7 Imports (current prices in euro, %)	102.3	111.1	106.7	106.5	106
8 Foreign trade balance (EUR billion)	9.7	8.1	4.9	7	6.5
9 Balance of the current and capital account (EUR billion)	7.0	5.1	3.2**	5	6.5
10 Average exchange rate of euro (in HUF)	311.5	309.2	318.1***	320	327
11 General government deficit* (HUF billion)	848.3	1974	1678.0***	1900	1000
12 Index of average gross earnings	106.1	112.9	111.7	111.5	108
13 Consumer price index	100.4	102.4	102.8***	103	103.5
14 Consumer price index at the end of the period (corresponding month of the previous year=100)	101.8	102.1	103.8***	103.5	103.7
15 Rate of unemployment (at the end of the period, %)	4.4	3.8	3.7****	3.7	3.6

\* Cash flow basis, without local governments

\*\* First half of 2018

\*\*\* January–October 2018

\*\*\*\* Average of August–October 2018

**GKI ECONOMIC RESEARCH CO.**

1092 Budapest, Ráday u. 42-44.

Phone: +36 1 318 1284 E-mail: [gki@gki.hu](mailto:gki@gki.hu)

For more information: Andras Vertes, Laszlo Akar, Gabor Karsai