



## HUNGARIAN GDP GROWTH PEAKED IN THE FIRST QUARTER

In the first quarter of 2019 the Hungarian economy grew by 5.3 per cent, at a record speed. This rate is by far the fastest in the EU, together with Malta and Romania, the others not even reach 4 per cent. The EU average was 1.5 per cent and the euro area 1.2 per cent, the same as in the previous quarter. As a result of favourable Hungarian data, GKI, like other forecasters, raised its GDP forecast for 2019, from 3.5 per cent to 4 per cent. It is generally believed that a slowdown can be expected during the rest of the year. Projections typically envisage an average GDP growth rate of above 4 per cent in 2019.

Growth rates of investments and construction were especially spectacular in the first quarter. Investments increased by 26.4 per cent in the national economy, by 34 per cent in construction and by 21 per cent in machinery. The output of construction rose by an astonishing 50 per cent. These are much better figures than those expected for the whole year. Incoming EU transfers and, in particular, their actual use will continue to rise in 2019. They generated an investment growth of 17 per cent in 2018; however, they will only generate around 13 per cent this year. Deceleration is indicated by the fact that at the end of March the construction contract portfolio was already 1.2 per cent lower than a year earlier, and some major automotive investments are implemented at a slower pace than planned.

The growth rates of industrial production and retail sales are also expected to be somewhat faster (4 and 5 per cent, respectively) than previously anticipated; however, a slight slowdown is expected in the course of the year. The growth rate of consumption is expected to be slightly slower (around 4.3 per cent) than in the first quarter (4.8 per cent) or in 2018 (4.6 per cent). The growth rate of gross earnings was slowly but steadily decreasing in 2018, in accordance with inflationary trends. As a result, real earnings slowed down to around 8 per cent from a rate of above 10 per cent in 2017. Its growth rate is expected to be high in 2019 as well: 6.5 per cent. Conditions for the payment of the pension premium will be met. In the autumn, about 0.8 per cent increase in pensions can be expected due to faster inflation than projected by the government. In addition to sharp wage growth, the rise in consumption is boosted by strong consumer confidence and the expansion of lending. At the same time, expansion is hindered by the slowdown in the growth of real wages, the high and rising levels of housing costs and higher yields on government securities market available from June.

Between February and April 2019, the average number of employees increased by 1.1 per cent. Meanwhile, the number of those employed in public workfare schemes dropped significantly (by about 40,000) and the number of those working at plants of foreign companies in Hungary increased somewhat. Hungary's 3.5 per cent unemployment rate is one of the lowest in the EU. With the inclusion of those employed in public workfare schemes, the ratio would be about 6 per cent; however, it is also lower than the EU average.

In April, the 3.9 per cent Hungarian inflation rate was the second highest in the EU behind Romania, about twice the average. The core inflation rate was already 3.8 per cent in March. The unchanged ultra-loose monetary policy of the National Bank of Hungary has not curbed price increases and triggered a significant weakening of the forint. GKI considers the tightening of domestic monetary conditions unavoidable in 2019. The launch of the Hungarian Government Securities Plus, whose yields are significantly higher than those of other government papers, can already be considered indirect monetary tightening.

The current account balance is expected to be negative in 2019. However, as a result of the inflow of EU transfers, a surplus of EUR2bn is expected in the current and capital account.

## FORECAST OF GKI FOR 2019

	Description	2016	2017	2018	2019	
					01-03	forecast
1	GDP (%)	102.3	104.1	104.9	105.3	104
2	Industrial production (%)	100.9	104.8	103.6	106.2	104
3	Investments (%)	88.7	123.7	117.0	126.4	113
4	Construction services (%)	81.2	129.6	122.3	148.2	117
5	Retail trade turnover (%)	104.7	104.9	106.0	106.5	105
6	Exports (current prices in euro, %)	103.4	108.2	104.2	105.9	105
7	Imports (current prices in euro, %)	102.3	111.1	107.3	107.5	107
8	Foreign trade balance (EUR billion)	9.7	8.1	5.6	1.9	4
9	Balance of the current and capital account (EUR billion)	7.0	4.9	3	-	2
10	Average exchange rate of euro (in HUF)	311.5	309.2	318.9	319.0**	320
11	General government deficit* (HUF billion)	-848.3	-1974	-1445.1	-39.0**	-1000
12	Index of average gross earnings	106.1	112.9	111.3	111.0	110
13	Consumer price index	100.4	102.4	102.8	103.4**	103.5
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	101.8	102.1	102.7	103.9**	103.5
15	Rate of unemployment (at the end of the period, %)	4.4	3.8	3.6	3.5***	3.6

\* Cash flow basis, without local governments

\*\* January–April 2019

\*\*\* February–April 2019

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