



CHEERFUL STATISTICS, GLOOMY EXPECTATIONS

According to April-May data, the growth rate of the Hungarian economy started to slow down in the second quarter compared to the record high dynamism of the first quarter. However, the extent of the slowdown is lower than expected. In addition, the weather seems to be more favourable for agriculture than it was in the past. As a result, GKI raised its 2019 GDP growth forecast from 4 per cent to 4.3 per cent. However, in the second half of the year, the growth rate is expected to slow down significantly, to around 3.5 per cent. An important reason for this is that due to the high level of EU transfers last year, their investment stimulating effects are decreasing this year and the increase of the purchasing power of households is also slowing down. In addition, the EU's economic sentiment index is almost at its three-year low; the Hungarian one is at its two-and-a-half year low and the German business confidence index, which is very important for Hungary, is at its five-year nadir.

The growth rate of industrial production slowed down only marginally in April and May, to 6 per cent. However, the year-on-year increase in production is expected to be only around 4 per cent as a result of significantly deteriorating expectations in the EU and Hungary, especially due to the increasingly uncertain future of the automotive industry. Construction soared in the first five months by an astonishing rate of 40 per cent, in part due to an underestimated price index and overcharging, especially in the case of public procurements. At the same time, the slowdown is clear: construction output has been declining for the third consecutive month, and the volume of construction contracts at the end of May was 8 per cent lower than a year earlier. Retail sales grew by 5-7 per cent in the first months of 2019, and their growth rate decelerated to 2.6 per cent in May. However, they are expected to grow at a faster annual rate of around 5 per cent. In the first five months of the year, the number of guest nights spent by foreigners in Hungary did not change compared to last year, whereas that of Hungarians decreased slightly.

The growth rate of gross earnings has been decreasing by 1.5 percentage points per year since its peak in 2017 and the rate of inflation has been accelerating by around 0.5 percentage points. As a result, the growth rate of real wages decelerated from above 10 per cent in 2017 to around 8 per cent in 2018, and they are expected to remain at a very high level of 6-6.5 per cent in 2019. Conditions for the payment of the pension premium will be met. In the autumn, about 0.8 per cent increase in pensions can also 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 rate of real wages, the high and rising levels of housing costs and higher yields in the government securities market available from June.

In March-May 2019, the average number of employees increased by 1 per cent. Meanwhile, the number of those employed in public workfare schemes dropped significantly (by about 50,000) and the number of those working at plants of foreign companies in Hungary increased somewhat compared to the previous year. Hungary's 3.4 per cent unemployment rate is the fourth lowest in the EU. With the inclusion of those employed in public workfare schemes, the ratio would be about 5.8 per cent; however, it is also lower than the EU average of 6.3 per cent.

Hungary's inflation rate has been the second highest in the EU behind Romania for more than a year, and it is more than twice the average. The rate of inflation declined to 3.4 per cent in June from 3.9 per cent in April and May. However, core inflation remained at 3.8 per cent. GKI expects an annual average inflation rate of approximately 3.5 per cent, the same as in the first half of the year. The loose monetary policy of the National Bank of Hungary has not curbed price increases, leading to a weakening of the forint. 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.

FORECAST OF GKI FOR 2019

Description	2016	2017	2018	2019	
				01-05	forecast
1 GDP (%)	102.3	104.1	104.9	105.3**	104.3
2 Industrial production (%)	100.9	104.8	103.6	106.7	104
3 Investments (%)	88.7	123.7	117.0	126.4**	113
4 Construction services (%)	81.2	129.6	122.3	140.4	120
5 Retail trade turnover (%)	104.7	104.9	106.0	105.8	105
6 Exports (current prices in euro, %)	103.4	108.2	104.2	105.2	105
7 Imports (current prices in euro, %)	102.3	111.1	107.3	106.4	107
8 Foreign trade balance (EUR billion)	9.7	8.1	5.6	2.8	4
9 Balance of the current and capital account (EUR billion)	7.0	4.9	3	1.2	2
10 Average exchange rate of euro (in HUF)	311.5	309.2	318.9	320.6***	322
11 General government deficit* (HUF billion)	-848.3	-1974	-1445.1	-390***	-1000
12 Index of average gross earnings	106.1	112.9	111.3	110.4****	110
13 Consumer price index	100.4	102.4	102.8	103.5***	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	103.4***	103.5
15 Rate of unemployment (at the end of the period, %)	4.4	3.8	3.6	3.4*****	3.6

* Cash flow basis, without local governments

** First quarter of 2019

*** First half of 2019

**** January–April 2019

***** March–May 2019

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