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HOW LONG CAN EXCESSIVE ECONOMIC GROWTH LAST?

The Hungarian economy grew by 4.9 per cent in the second quarter, faster than expected. This was the highest growth rate in the EU. However, the slowdown, if only to a very small extent, has begun. GKI's current forecast of the annual growth rate of about 4.3 per cent is in line with the recent expectations of the government and the National Bank of Hungary. The deterioration of the external economic environment, the decelerating investment stimulating effects of EU transfers due to statistical base effects, the worsening trends in domestic business expectations and the gradual depletion of the employment reserve all play a role in the anticipated slowdown in the second half of the year.

According to the data of the first half of 2019, the Hungarian economy is driven by investments and consumer demand. Domestic demand grew by 5.5 per cent, faster than GDP (by 5.1 per cent). The gap between imports and exports continued to widen in the second quarter, and the slightly increasing surplus of services could not offset the significantly deteriorating merchandise trade balance.

In the first half of 2019, vehicle manufacturing, accounting for 30 per cent of manufacturing output, recovered after three years of stagnation and increased by nearly 10 per cent, almost twice the average. At the same time, a growth rate of just 1.5 per cent in June, together with the international concerns regarding the automotive industry, is predicting a slowdown in industrial production. Although construction grew by 35 per cent in the first half of 2019, it increased "only" by 29 per cent in the second quarter. Overheating is indicated by the fact that in the first half of the year, despite a lot of ongoing construction projects, slightly fewer new homes were completed than a year earlier. Another sign of a slowdown is that at the end of the first half of 2019 the construction contract portfolio was already 11 per cent lower than last year. Compared to the first quarter, the growth rate of retail trade also slowed down slightly in the second quarter (from 6.8 per cent to 5 per cent), and the annual growth rate is expected to be around 5 per cent.

Real wages rose by nearly 7 per cent in the first half of 2019, and household consumption by 4.5 per cent. In the second half of the year, the growth rate of wages may typically slow down slightly. Conditions for the payment of the pension premium will also be met this year. In the autumn, about 0.8 per cent retroactive increase in pensions can also be expected due to faster inflation than projected by the government. One-off benefits to those involved in public workfare schemes and pensioners before municipal elections also increase purchasing power.

Between May and July 2019, the number of employees grew by an average of 0.8 per cent. The slowdown is indicated by the fact that this rate was 1.5 per cent in the first quarter. It is favourable that the number of those employed in public workfare schemes dropped by about 50,000 compared to the previous year, and a decrease was also observed compared to the beginning of the year. The number of those working at plants of foreign companies in Hungary went up somewhat. Hungary's 3.4 per cent unemployment rate is the third lowest in the EU. With the inclusion of the about 110 thousand people 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 EU average. The inflation rate declined from its peak of 3.9 per cent in the spring to 3.3 per cent in July; however, core the inflation rate was 3.7 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—together with the effects of the uncertainty around Brexit, fears of a trade war and the German recession, as well as the ECB's expected bond purchase programme—led to the weakening of the forint to a new historical low in August.

THE FORECAST OF GKI FOR 2019

	Description	2016	2017	2018	2019	
					Q1-Q2	forecast
1	GDP (%)	102.3	104.1	104.9	**104.9**	**104.3**
2	Industrial production (%)	100.9	104.8	103.6	**105.4**	**104**
3	Investments (%)	88.7	123.7	119.2	**119.3**	**113**
4	Construction services (%)	81.2	129.6	122.3	**135.1**	**120**
5	Retail trade turnover (%)	104.7	104.9	106.0	**105.7**	**105**
6	Exports (current prices in euro, %)	103.4	108.2	104.2	**103.2**	**103**
7	Imports (current prices in euro, %)	102.3	111.1	107.3	**105.0**	**105**
8	Foreign trade balance (EUR billion)	9.7	8.1	5.6	**3.3**	**3.7**
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	**321.2*******	**324**
11	General government balance (HUF billion)	-848.3	-1974	-1445.1	**-353*******	**-1000**
12	Index of average gross earnings	106.1	112.9	111.3	**110.6**	**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	**103.3*******	**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*
*** *January-July 2019*
**** *May-July 2019*

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