



GDP GROWTH SLOWED DOWN AND INFLATION DECELERATED AS WELL

The Hungarian economy increased outstandingly in the first half of 2019, by 5.1 per cent, the same rate as last year. Until now, this rate has been the fastest in the EU this year, about three times the average. Although the third quarter started well in July, industry and construction slowed down markedly in August. In addition, business expectations suggest no improvement in the coming months. However, the rate of inflation has also decreased since May, by a total of almost 1 percentage point until September. The state of public finances is also favourable, though after 2018 the current account is again in deficit this year, and the forint is weak. The deterioration in global economic conditions and the weakening of the stimulating effects of EU transfers anticipate a marked deceleration of GDP growth in 2020.

The Hungarian economy is driven by domestic demand. The rate of increase of domestic consumption was almost one percentage point higher than that of GDP in 2017, more than 2 percentage points higher in 2018 and nearly 0.5 percentage points higher in the first half of 2019. Accordingly, external disequilibria continue to deteriorate. Imports of goods increased by about 3 percentage points faster than exports in 2017 and 2018, and by nearly 2 percentage points in the first eight months of 2019. This was partially offset by the increase in the surplus of the external trade of services, however, after nine years the current account balance was back again in deficit in 2018, and this is the case in the first half of this year as well. This is a negative but not yet dangerous trend, as the inflow of EU transfers makes the current and capital account to be in surplus both in 2019 and 2020. However, in a small country like Hungary long-term sustainable growth is impossible without export orientation.

Domestic sales in manufacturing increased by 2 percentage points faster than exports in the first eight months of this year. While the share of exports in GDP was still 74.7 per cent in 2017, during the first eight months of 2019 it was only 72.7 per cent. GKI forecasts Hungary's industrial production to grow by 5 per cent in 2019 and by about 4 per cent in 2020. After about three years of soaring with a yearly expansion of 20-30 per cent, the growth rate of construction output slowed down to 6 per cent in August. The marked deceleration was expected, however, the average annual growth rate probably will remain above 20 per cent in 2019. It will drop to around 2 per cent in 2020. However, no slowdown can be expected in retail trade in the second half of this year. Neither the favourable data of July and August, nor rapid wage increases, nor the slightly-lower-than-previously-expected inflation rate (around 3.3 per cent) make it probable. Retail trade is expected to increase by an annual average of 6 per cent in 2019 and by close to 4 per cent in 2020. Although the number of overnight stays declined slightly in tourism until August, revenues were up by 8 per cent due to price increases and a weak forint.

Employment continued to expand: between July and September 2019 0.8 per cent more people were employed than a year ago, whereas the number of those involved in public workfare schemes dropped by nearly 30 thousand. Unemployment was 3.3 per cent in the second quarter of 2019, and 3.5 per cent in the third quarter. It anticipates changes that GKI surveys indicate lower labour shortages and several major companies are planning layoffs.

The decrease in the number and share of low-paid workers involved in public workfare schemes contributes statistically to the increase of gross earnings. Earnings grew by 11.3 per cent in the private sector in the first eight months of 2019 (without those involved in public workfare schemes), and only by 5.8 per cent in the public sector. Real earnings are expected to go up by an annual average of 7 per cent in 2019, and by 4-5 per cent in 2020, leading to an increase of 4.5 per cent in household consumption in 2019 and 3.5 per cent in 2020.

However, the 13 per cent growth rate of investments in 2019 will be followed by only around 2 per cent in 2020, mainly due to weakening of the stimulating effects of EU transfers.

THE FORECAST OF GKI FOR 2019 AND 2020

Description	2017	2018	2019		2020
			01-08	forecast	
1 GDP (%)	104.3	105.1	105.1**	104.3	102.7
2 Industrial production (%)	104.8	103.6	105.6	105	104
3 Investments (%)	123.7	119.2	119.3**	113	102
4 Construction services (%)	129.6	122.3	129.6	121	102
5 Retail trade turnover (%)	104.9	106.0	105.8	106	104
6 Exports (current prices in euro, %)	108.2	104.2	103.7	103	102
7 Imports (current prices in euro, %)	111.1	107.3	105.4	105	103.5
8 Foreign trade balance (EUR billion)	8.1	5.5	3.3	3.7	2.5
9 Balance of the current and capital account (EUR billion)	3.9	2.7	1.7**	2	1.5
10 Average exchange rate of euro (in HUF)	309.2	318.9	323.1***	325	335
11 General government balance (HUF billion)	-1974	-1445.1	-303.6***	-1000	-500
12 Index of average gross earnings	112.9	111.3	110.7	110	108
13 Consumer price index	102.4	102.8	103.3***	103.3	103.3
14 Consumer price index at the end of the period (corresponding month of the previous year=100)	102.1	102.7	102.8***	103.5	103.3
15 Rate of unemployment (at the end of the period, %)	3.8	3.6	3.5****	3.6	3.5

* Cash flow basis, without local governments

** First half of 2019

*** January–September 2019

**** July–September 2019

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