

## Hungary: Consumption drives GDP growth

The economy started 2018 exactly where it left it last year but the growth structure is becoming slightly imbalanced as consumption is responsible for an increasing slice of the growth



Source: Shutterstock

# 4.4%

GDP growth (YoY)

Previous (4.4%)

As expected

### Services in the focus

The second 1Q18 GDP release caused no surprise as the Hungarian Central Statistical Office (HCSO) left the 4.4% year on year advance reading unchanged. The details are also roughly in line with expectations, as domestic demand remains the main driver.

---

*Services sector provides the majority of economic activity*

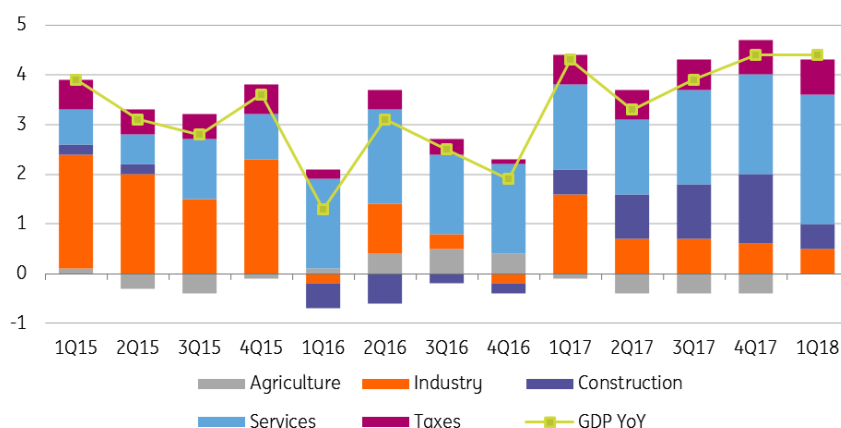
---

On the production side, we would like to highlight the significant and increasing contribution of

services, making the growth structure more and more imbalanced. Services provided a 2.6ppt contribution to GDP growth - the strongest figure since 4Q13.

Information and communication, trade and accommodation as well as food service activities played a leading role. The former sector could benefit from digitalisation led by labour shortage, while the latter is thriving on the improvement of households' income position.

## Contribution to GDP growth - production side (% YoY)



Source: HCSO

Construction slowed down to 22.5% YoY in 1Q18 due to the high base but was still mainly driven by the drawdown of EU funds, thus infrastructural projects.

The increase of value added in industry underperformed the average growth of 2017, marking a 2.0% YoY activity, one of the weakest starts in the last few years. The contribution of the industry and construction to the GDP growth was only 1.0ppt, in a fifty-fifty proportion between the two sectors. Agriculture has started this year in relatively good shape, posting a 0.6% YoY decrease in added value.

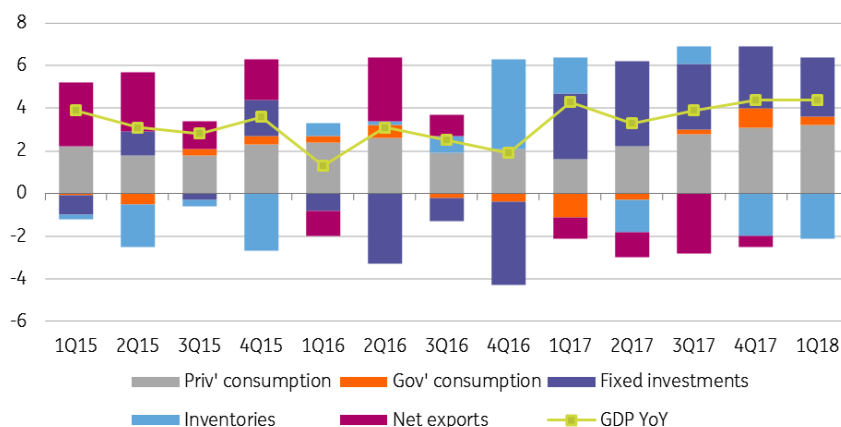
Due to the small weight, the effect of the sector remained neutral. The contribution of net taxes on products reached a remarkable 0.7ppt. As this is the income of the government, we see this as a sign of the increasing extra revenue due to the combination of two things: (1) strong economic performance and (2) the retreat of the shadow economy.

## One-sided economy

Taking into consideration the expenditure side, the main drivers behind the GDP growth have remained domestic factors. Private consumption reached 3.2ppt contribution, the highest since 2006. This is due to the significant pickup in the labour market and the constantly increasing wage bill combined with a high level of propensity to consume.

The expansion of government consumption also helped the economy with its 4.6% YoY growth, translating into a 0.4ppt contribution to economic activity. The strong spending before a general election is a well-known pattern in Hungary.

## Contributions to GDP growth – expenditure side (% YoY)



Source: HCSO

In line with the strong performance by the construction sector, investments rose by 17.1% YoY, causing a positive surprise. Fixed investments had a 2.8ppt contribution to GDP growth. The domestic use added 4.4ppt to the 1Q18 GDP growth, as net export had a neutral effect.

Both export and import activity slowed down remarkably, posting one of the weakest quarter in the recent history of foreign trade. This is however in line with the disappointing performance by industry.

## Changing growth structure in 2H18

After the strong, 4.4% YoY GDP growth in 1Q18, we could see another year of 4% or even better economic activity. The outlook is still rosy as we see the wage bill to increase further mainly on the back of wage growth and partially due to more improvement in employment.

---

*We see GDP growth at 4.2% YoY in 2018*

---

Regarding the strong base effect in fixed investments, we expect contributions to weaken somewhat. Investment activity will increase by around 13% YoY after the 17% jump in 2017, mainly on infrastructural projects. Upside risks prevail mainly due to the soaring housing market. On the external demand side, we expect new manufacturing capacities to enhance export production gradually through the year.

We see a high probability of net export being a slight positive contributor to the GDP growth in 2018.

## Growth to remain in the 4% territory in 2Q18

We expect economic activity to slow down to 4.0% YoY growth in 2Q18 but don't expect significant changes in the structure as domestic demand will continue to be the main driver.

We see upside risks surrounding our forecast as the 1Q18 data was better than expected. Net export might surprise on the upside if new capacities started producing earlier than expected.

## Author

### Peter Virovacz

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto:peter.virovacz@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.