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1. International economy

By the autumn of 2018, the global economic situation became quite complicated. **Global economic growth** is still dynamic but a growing number of signs indicate that it is past its peak, and after the acceleration in early in the year it lost some momentum. As a result, the global economy is expected to grow at a slower pace from now. The divergences between the respective growth rates in the various regions seem to become more pronounced and especially the emerging countries face mounting downward risks. International tensions increase worldwide, and their economic consequences may surpass expectations. The trade conflicts, instigated by the US, and the capital outflow from the emerging countries pose the greatest short-term risks. Apart from those, the Brexit-related uncertainties, the spillover effects of monetary tightening, the danger of financial bubbles, rising oil prices, exchange rate fluctuations and extreme monetary policy constraints in some of the emerging economies all affect markets and sap the willingness to invest and to take risks.

Global trade, so far, remained mostly undented by the beginnings of the trade war, but its dynamism may suffer even before the next year. Analysts say that the mutual tariff increases may reduce Chinese export by as much as 20-30 percent, with a corresponding impact on Chinese import. Such a slowdown in the trade flows of the world's largest exporter may bring down the global trade growth rate to about 3.4 percent, after the splendid 4.9 percent in 2017. The new free trade agreement between the EU and Japan does not help because the bilateral trade is not really substantial compared to the trade flows between the respective parties and their nearby trade partners.

Commodity prices rose in early 2018, due to both demand and supply factors, in every commodity group. Since June, however non-fuel commodity prices began to decrease while crude oil prices soared spectacularly. On the whole, the prices of nonfuel commodity prices slid by more then 6 percent between January and September – 5 percent in the case of agricultural and food commodities and 12 percent in the case of non-ferrous metals.

The Brent **crude oil price** currently stands in the vicinity of USD 84, a four-year peak, defying all expectations. Not only expanding demand, but the impact of the sanctions agains Iran, and the decline of Venezuelan oil production contributed to this take-off as well. According to the most recent projections, daily global oil demand may reach USD 99.3 in 2018 and 100.8 in 2019, from the USD 97.9 in the last year. On the other hand, the deceleration of global growth may limit oil demand especially on the part of China and India, but OECD countries may be affected as well. In that case, the excess demand may not become severe enough to push prices drastically upward. Oil reserves have decreased recently but not substantially. As a result, we expect a much milder trajectory, with an average price of USD 74 in 2018 and USD 78 in 2019, with

both upward and downward risks. On the short run, fears regarding supply bottlenecks and regarding geopolitical and trade policy uncertainties may cause wild price fluctuations.

Monetary policy tightening is continuing. The FED raised interest rates again, in accordance with expectations, by 25 basis points. As a result, the reference rate is fluctuating within a narrow band of 2-2.25 percent. The FED board suggest another raise toward the end of this year and three further raises in 2019. Since the US economy is growing at a good pace and there are no clear inflation risks, the gradual raises seem reasonable even if the government is worried about a possible negative effect on economic growth. The FED revised its growth projection downward but left its inflation forecast unchanged, thinking that the tight labor market and rising fuel prices are not game-changers. Despite the EU inflation reaching 2.1 percent in September, the ECB keeps the policy rates unchanged, close to zero, resulting in a widening gap between US and EU rates. Mario Draghi ECB president confirmed, after the September interest rate decision, that the Eurozone economic growth seems sustainable and, since inflation is approaching the target level, the asset purchasing program can be wrapped up at the end of the year. The *Bank of England* kept the policy rate at 0.75 percent, as expected. The BoE raised its reference rate twice during the past year, first time after a ten-year period. The markets expect no further raise until the Brexit comes into force, theoretically in March 2019. In *Japan*, the expansive monetary stance persists. The situation is quite different in several *emerging countries*. a drastic rate hike was implemented in Turkey in September, the reference rate was raised in Argentina (by 15 percentage points) to 60 percentage points in August, a sign that the country is on the verge of bankruptcy. In Russia, the reference rate was raised by 25 basis points to 7.5 percent in September, and the restrictive monetary stance will continue.

The euro has come under pressure, due to the growing rate gap against the US dollar. At present the euro is fluctuating around 1.15 EUR/USD, a level below the January-September average. We revised our previous forecast downward, **to 1.19 dollar/euro**, and the euro may slightly weaken further in the next year, to 1.18 EUR/USD. Several downward risks – above all, the multiple problems around Brexit – exist.

The **US economic growth** will remain strong in 2018. The expected 2.8-2.9 growth rate is clearly the peak of the present cycle, with a prospect of deceleration in 2019. Actually, some of the economists predict a recession for the post-2020 period. The quarter-on-quarter growth was above 1 percent in the second quarter, a three-year record. Private consumption and export grew at a particularly dynamic pace. Export was partly driven by the efforts of exporters to wrap up their transactions vis-à-vis China before the trade restrictions come into force. Sentiment indicators suggest that the growth rate will lose some steam in the third quarter. The possibility of escalating trade conflicts (between the

US and China and between the US and the EU) poses the largest risk to economic growth – such an escalation would severely hurt the US firms integrated into the global production chains.

The sluggish growth at the start of the year in **Japan** made a mark on the generally expected yearly growth rate – about 1 percent only. Since then, economic activity picked up pace: private consumption strengthened somewhat, but it is still below 1 percent. Investments slightly accelerated too, but their annual growth rate will remain below the rates seen in the past year. Export is still the main driver of growth but it will be probably hit by the deteriorating external conditions. Therefore it is hardly surprising that the central bank does not change its expansionary stance: negative real interest rate remains in the near future.

Economic growth continues in **Russia**, but at a tepid pace. For this year, annual growth is expected to reach 1.8 percent and it may even lose further steam in the next year. Private consumption hardly grew while investments rose at a relatively good pace. Manufacturing production contracted throughout the summer but the slide stopped in September. Inflation is moderate and will remain below the 4 percent central bank target level.

The slowdown of economic growth continues in **China**, but at a moderating pace. The government put a brake on its investment activity to cap the further accummulation of public debt, which is already a source of considerable risk. The growth loss from the trade was is expected to decrease the growth rate by an underwhelming 0.2-0.3 percentage point, thanks to the low value added content of Chinese export. The yuan is expected to keep weakening: it may even reach 7 USD/CNY by the end of the year.

Due to the worsening external conditions, we revise our **Eurozone** growth forecast downward by 0.2 percentage point for both 2018 and 2019. As a result, we expect respective growth rates of 2 percent and 1.8 percent for this year and the next, in both the Eurozone and the EU28. The growth has lost some steam since the beginning of the year, partly due to country specific factors (e.g. Italy), but also due to the slow pace of global trade growth. The unresolved Brexit question was probably one of the factors behind slowing business investment growth. But even so, investment activity is still a stable driver of overall growth, and it is expected to remain so, in the light of high capacity utilization levels. The finance Lending conditions are expected to remain favorable, due to steadily low interest rates, and the fiscal stance will keep support growth, even in countries where some fiscal austerity would be timely (Italy, Greece). Sentiment indicators paint a mixed picture: the ESI index is still high in most countries, although the trend is slightly descending. The eurozone barometer by the IFO, on the other hand, fell substantially in the past two quarters, indicating a more pessimistic attitude among firms.

The year-on-year *harmonized consumption price index* climbed to 2.1 percent in September; driven by food prices (2.7 percent) and

energy prices (9.5 percent). Core inflation is still largely stable, around 1 percent. We expect the annual eurozone inflation at 1.8-1.9 percent in 2018 and 2019 – after the 1,5 percent in the last year – which is still below the ECB target. The inflation in the EU28 as a whole is expected to be marginally higher, due to the somewhat steeper price hike in the EU member states outside the euro area.

The *labor market* expectations are still favorable. The eurozone unemployment rate dropped to 8.1 percent in August, the lowest rate since November 2008. The respective rate in the EU28 was even lower, 6,8 percent. Now the labor shortage is the main problem, according to surveys, even if it does not hinders growth at average to the degree it seems to do in Hungary.

The **German economy** remains robust, even if the global deceleration and the external risks begin to put a downward pressure on German economic dynamism. We expect the GDP to expand at 1.8 and 2 percent, respectively, in 2018 and 2019, with downward risks. On the producers' side, labor shortage is becoming a potential bottleneck and will probably push wages upwards. Export growth will slightly slow down this year. The same is true for investment activity as well, but the favorable financing conditions and high capacity utilization levels probably keep investments grow at a good pace. Especially building investments benefit from favorable financing conditions.

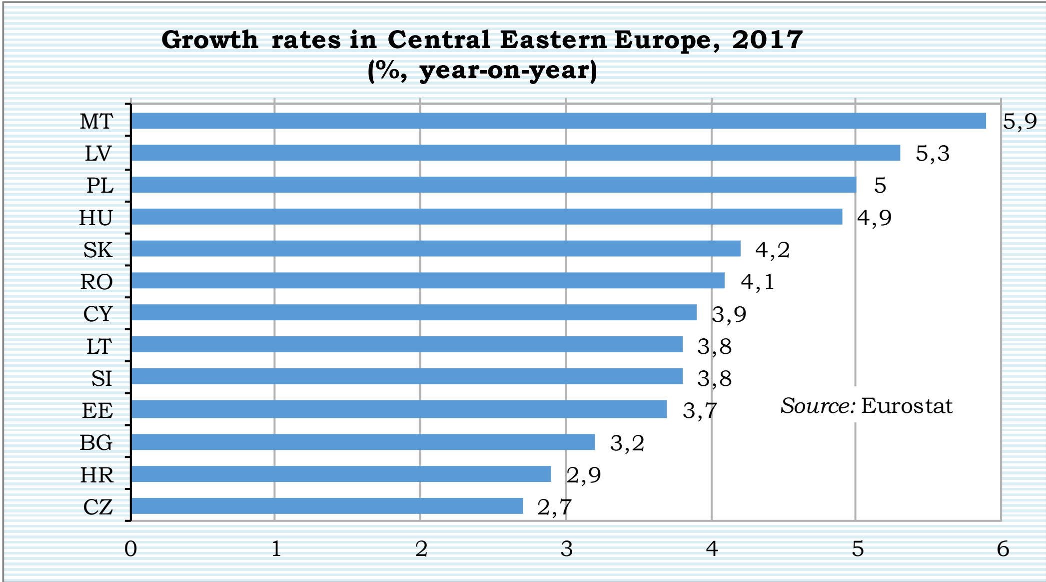
The **United Kingdom** has been suffering from the the Brexit problem ever since the referendum. The UK economy is likely to grow by about 1 percent in both this year and the next, a pace well below what was expected early in the year. The main problem is still that nobody knows under what conditions the Brexit will happen. Should a hard Brexit take place, the sudden appearance of custom tariffs and other trade restrictions will cause heavy growth loss.

2. Central Eastern European new member states

Robust growth

The GDP of the new member states was up 4.2 percent in the second quarter, a pace virtually identical with the pace in the first quarter. Malta boasted the highest growth rate (5.9 percent), followed by Latvia, Poland and Hungary. The former growth champion, Romania, still grew at a good pace of 4.1 percent, even if it is a disappointment compared to the previous years. The Czech Republic and Croatia posted the less underwhelming growth, with year-on-year rates below 3 percent.

Dynamic growth for now, with a likely moderation in 2019



The overview of regional growth rates suggests that most new member states are already past their cyclical peak. While the quarter-on-quarter growth rates are still positive, the number of countries with rates higher than 1 percent is diminishing.

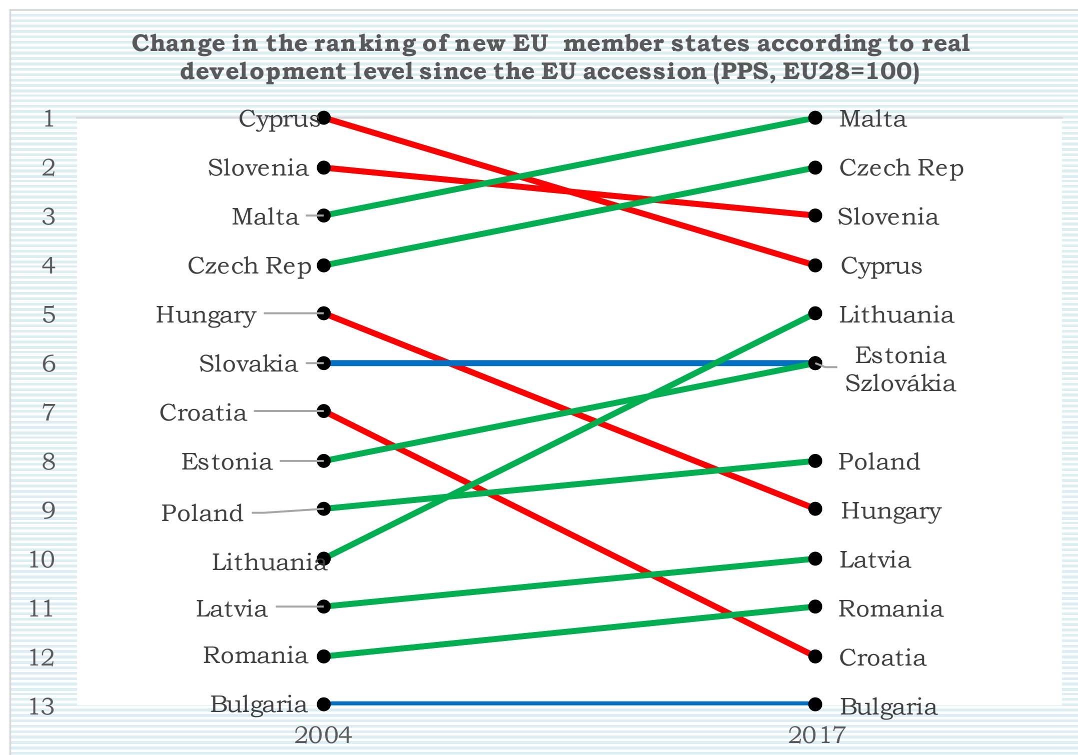
Private consumption continued to serve as a primary driving force, with a regional growth rate of 4.1 percent, contributing with 3 percentage points to the overall growth of 4.2 percent. Polish, Romanian and Hungarian consumption expenditure growth (4.4, 5 and 5.5 percent, respectively) should be highlighted foremost. As for fixed capital formation, Slovakia (20.4 percent), Hungary (15 percent) and Latvia (13.5 percent) posted the highest growth rates Among the Eastern European member states, while fixed investments contracted in Romania by almost 5 percent.

In the meanwhile, the Romanian growth model, based on consumption growth driven by the government's expansive wage policy, is coming to and end. Compared to 2012, labor costs are now higher by 62 percent (for comparison, the corresponding rate is 32 percent in Hungary), which brought about an explosion of household consumption expenditures by a cumulative 40 percent (24 percent in Hungary). This consumption growth also lead to a massive deterioration of current account balance during the past

three years. In the first quarter of 2018, the current account deficit doubled compared to the same quarter of 2017.

But this growth also improved the Romanian development indicators. At the beginning of the consumption-based growth policy – around 2012 – Romanian GDP per capita (at purchasing power parity) stood approximately at 55 percent of the EU average – by now, it grew by 8 percentage points. Also, Romania improved its ranking among the new member states by one position.

Since the EU accession, Lithuania advanced the most, reaching 78 percent of the EU-average per capita GDP by 2017, overtaking five member states (Hungary, among others). The Czech Republic, Estonia, Malta and Slovakia also improved its relative development level compared to the EU average, even if Slovakia's ranking among the new member states did not change. Croatia and Hungary



hardly advanced compared to the EU average while the relative level of Slovenia and Cyprus have even declined since 2004. The recent trends suggests that Latvia will take over Hungary and Romania will catch up with Hungary in 2019 in terms of per capital real GDP.

In 2017, Hungary was the ninth among the new member states in terms of the level real economic development.

Inflation and interest rates on the rise

Despite the continuing rapid consumption growth, the average pace of inflation is still quite low. Only In Romania and Bulgaria was the inflation rate in January-August higher (4.2 and 3.3 percent, respectively) than the usual target level, 3 percent. While inflation rates will generally remain below this threshold in 2018, they are likely to surpass it in the next year. This will put a pressure on monetary policy: we expect a period of gradual rate hikes around the middle of 2019 in the region. Food price inflation was only slightly above overall inflation, with an average rate of about 3 percent, with the exception of Estonia (5.5 percent), Hungary (4.5 percent and Romania (4.2 percent). where demand and the weather pushed food prices upward. Amid the oil price hike, energy prices followed suit: they were higher by 5.3 percent in August than in the same month of the last year. Romania and Estonia were extreme cases in this regard, with energy price hikes of 13.5 and 6.5 percent, respectively.

During the summer, core inflation crossed the 1 percent threshold at last: its regional average level is 1.2 percent at present, but it whould be 1.7 percent without the very low Polish level (0.1 percent). This indicates that, beside imported energy inflation and food inflation, other prices begin to rise at an accelerating pace as well.

In the meanwhile, long yield started to rise, too, as investors began to factor the coming rate hikes into their investment policy. Hungarian long yields rose the most steeply (by 1.4 percentage points to 3.57 percent by the end of September, Romanian long yiels are still the highest, at 4.75 percent. By now, only 5 out of the 13 new member states boasts below-1 percent long yield levels (Bulgaria, Latvia, Lithuania, Slovenia and Slovakia). The Czech long yield have risen to 2.14 percent over the past year, as the country's growth prospects gradually dim. The average maturity of Czech government securities has substantially shortened in the recent years, which is in puzzling because the Czech economic performance has been stellar and the Czech interest rates reached record lows. At the same time, other new member states strove to lengthen the maturities of their securities. During the first three quarters of 2018, the Czech central bank raised the interest rate several times, citing inflationary risks. At the end of September, the policy rate stood at 1.5 percent, as opposed to the 0.5 percentin September 2017.

The exchange rate movements were heavily affected by the tumultuous weakening of the Turkish lira. The Hungarian foring has depreciated against the euro by more than 5 percent during the past 12 months, while the depreciation was less pronounced in the case of the Polish zloty (2 percent) and the Romanian leu (1.5 percent). The Czech koruna even strengthened during the same period. These exchange rate movements primarily reflect short-term prospects: the investors try to push central banks to

raise the reference rates, but the central banks have managed – so far – to calm the markets by verbal interventions. This may change, however, in the near future. The growth prospects of the regions is still not bad but also not as good as it was previously, and the currencies keep being hit by the volatility of international financial markets. Sudden exchange rate falls, such as what was seen in the summer, may occur more frequently in the future.

On the whole, we expect the GDP of the new member states to grow by 4.2 percent in 2018, which is a deceleration of 0.4 percentage point compared to the last year. A further slowdown to about 3.5 percent is likely in 2019, still a pace above the average of the old member states. The growth rates may become, however, more divergent in the next year: Poland may keep up the good pace while economic growth may substantially lose speed in Romania, the Czech Republic and Hungary. The risks clearly point downward: the impact of the trade wars initiated by the US is still difficult to assess, and the future oil price trends are also unclear. Severe exchange rate turbulences may erupt at any time, and after a while, further interest rate hikes may become the only way to curb them.

Table 2.1.

Economic Growth in the EU Member States

(Percentage change of real GDP over the previous year)

	Weight	2012	2013	2014	2015	2016	2017	2018*	2019*
Germany	21.1	0.5	0.5	2.2	1.7	2.2	2.2	1.8	2.0
France	15.0	0.2	0.6	1.0	1.1	1.2	2.2	1.6	1.6
Italy	11.3	-2.8	-1.7	0.1	0.9	1.1	1.6	1.0	1.0
Netherlands	4.7	-1.1	-0.2	1.4	2.0	2.2	3.0	2.7	2.1
Belgium	2.8	0.2	0.2	1.3	1.4	1.4	1.7	1.5	1.6
Luxembourg	0.4	-0.4	3.7	5.8	2.9	3.1	2.3	3.8	3.6
Ireland	1.8	0.0	1.6	8.3	25.1	5.0	7.2	6.9	3.1
Greece	1.2	-7.3	-3.2	0.7	-0.3	-0.2	1.4	2.1	2.0
Spain	7.5	-2.9	-1.7	1.4	3.6	3.2	3.1	2.5	2.1
Portugal	1.2	-4.0	-1.1	0.9	1.8	1.9	2.8	2.2	1.9
Austria	2.4	0.7	0.0	0.7	1.1	2.0	2.6	2.9	2.0
Finland	1.4	-1.4	-0.8	-0.6	0.1	2.5	2.8	2.8	2.5
Estonia	0.1	4.3	1.9	2.9	1.9	3.5	4.9	3.5	3.2
Slovakia	0.5	1.7	1.5	2.8	4.2	3.1	3.2	3.8	3.8
Slovenia	0.3	-2.7	-1.1	3.0	2.3	3.1	4.9	4.4	3.5
Cyprus	0.1	-3.2	-6.0	-1.3	2.0	4.8	4.2	3.7	2.6
Malta	0.1	2.6	4.6	8.2	9.5	5.2	6.7	5.6	4.1
Latvia	0.2	4.0	2.4	1.9	3.0	2.2	4.5	4.5	3.2
Lithuania	0.3	3.8	3.5	3.5	2.0	2.3	3.8	3.6	3.0
Euro Area	**72.5**	**-0.9**	**-0.3**	**0.9**	**2.2**	**1.9**	**2.4**	**2.0**	**1.8**
United Kingdom	16.0	1.5	2.1	2.9	2.3	1.8	1.7	1.2	1.0
Denmark	1.9	0.2	0.9	1.6	1.6	2.0	2.3	1.1	1.7
Sweden	3.1	-0.3	1.2	2.6	4.5	2.7	2.1	2.9	2.2
Hungary	**0.8**	**-1.6**	**2.1**	**4.2**	**3.4**	**2.2**	**4.0**	**4.6**	**3.6**
Czech Republic	1.2	-0.8	-0.5	2.7	5.3	2.5	4.3	3.2	2.9
Poland	2.9	1.6	1.4	3.3	3.8	3.0	4.6	4.9	3.9
Romania	1.1	0.6	3.5	3.4	3.9	4.8	6.9	3.9	3.5
Bulgaria	0.3	0.0	0.9	1.3	3.6	3.9	3.6	3.7	3.5
Croatia	0.3	-2.2	-1.1	-0.1	2.4	3.5	2.9	2.8	2.7
EU-15	**91.8**	**-0.6**	**0.1**	**1.3**	**2.3**	**1.9**	2.3	**1.8**	**1.7**
New EU-13	**8.2**		**1.3**	**2.7**	**3.8**	**3.2**	4.6	**4.2**	**3.5**
EU-28	**100**		**0.3**	**1.4**	**2.4**	**2.0**	2.4	**2.0**	**1.8**
BREXIT	**84.0**					**2.1**	2.6	**2.2**	**2.0**
Other countries									
USA		2.2	1.7	2.6	2.9	1.5	2.3	2.9	2.4
Japan		1.5	2.0	0.3	1.1	1.0	1.7	1.0	1.2
China		7.7	7.7	7.3	7.0	6.7	6.9	6.6	6.4
Russia		3.4	1.3	0.7	-2.8	-0.2	1.5	1.8	1.5
South-Eastern Europe									
Serbia		-1.0	2.6	-1.8	0.8	2.8	1.9	3.3	3.5
Turkey		2.1	4.2	5.2	6.1	3.2	7.4	4.0	4.1

* Kopint-Tárki forecast
EU-15 = Countries that joined the European Union before 2004 ("Old EU Member States")
New EU-13 = Countries that joined the European Union in 2004, 2007 and 2013 ("New EU Member States")
Source: Eurostat, national statistical offices, OECD

Table 2.2.

Inflation in the EU Member States

(Harmonized consumer price indices, percentage change over the previous year)

	Weight	2012	2013	2014	2015	2016	2017	2018*	2019*
Germany	20.1	2.1	1.6	0.8	0.1	0.4	1.7	1.9	1.9
France	14.7	2.2	1.0	0.6	0.1	0.3	1.2	2.1	1.9
Italy	12.5	3.3	1.2	0.2	0.1	-0.1	1.3	1.2	1.1
Netherlands	3.8	2.8	2.6	0.3	0.2	0.1	1.3	1.6	1.7
Belgium	2.6	2.6	1.2	0.5	0.6	1.8	2.2	2.1	1.6
Luxembourg	0.2	2.9	1.7	0.7	0.1	0.0	2.1	1.9	2.0
Ireland	1.1	1.9	0.5	0.3	0.0	-0.2	0.3	0.6	1.2
Greece	1.5	1.0	-0.9	-1.4	-1.1	0.0	1.1	0.8	1.1
Spain	7.8	2.4	1.5	-0.2	-0.6	-0.3	2.0	1.7	1.6
Portugal	1.5	2.8	0.4	-0.2	0.5	0.6	1.6	1.3	1.4
Austria	2.2	2.6	2.1	1.5	0.8	1.0	2.2	2.1	2.0
Finland	1.4	3.2	2.2	1.2	-0.2	0.4	0.8	1.1	1.3
Estonia	0.1	4.2	3.2	0.4	0.1	0.8	3.7	3.3	2.9
Slovakia	0.5	3.7	1.5	-0.1	-0.3	-0.5	1.3	2.7	2.7
Slovenia	0.3	2.8	1.9	0.4	-0.8	-0.2	1.6	2.0	2.2
Cyprus	0.2	3.1	0.4	-0.2	-1.6	-1.2	1.0	0.6	1.4
Malta	0.1	3.2	1.0	0.7	1.2	0.9	1.3	1.6	1.7
Latvia	0.2	2.3	0.0	0.7	0.2	0.1	2.9	2.7	2.7
Lithuania	0.3	3.2	1.2	0.3	-0.7	0.7	3.8	2.5	2.7
Euro Area	**71.0**	**2.5**	**1.3**	**0.4**	**0.0**	**0.2**	**1.5**	**1.9**	**1.8**
United Kingdom	18.2	2.8	2.6	1.5	0.0	0.7	2.7	2.5	2.2
Denmark	1.6	2.4	0.5	0.4	0.2	0.0	1.1	0.8	1.6
Sweden	2.5	0.9	0.4	0.2	0.7	1.1	1.9	1.9	2.0
Hungary	**0.7**	**5.7**	**1.7**	**0.0**	**0.1**	**0.4**	**2.4**	**3.0**	**3.5**
Czech Republic	1.0	3.5	1.4	0.5	0.2	0.7	2.3	2.0	2.4
Poland	3.0	3.7	0.8	0.1	-0.7	-0.2	1.6	1.2	2.5
Romania	1.3	3.4	3.2	1.4	-0.4	-1.1	1.0	4.3	3.8
Bulgaria	0.4	2.4	0.4	-1.6	-1.1	-1.3	1.0	2.3	2.7
Croatia	0.3	3.4	2.3	0.3	-0.3	-0.6	1.3	1.6	2.0
EU-15	**91.7**	**2.5**	**1.5**	**0.6**	**0.1**	**0.4**	**1.7**	**2.0**	**1.9**
New EU-13	**8.3**		**1.4**	**0.3**	**-0.4**	**-0.2**	**1.7**	**2.2**	**2.8**
EU-28	**100.0**		**1.5**	**0.5**	**0.0**	**0.3**	**1.7**	**2.0**	**2.0**
BREXIT	**81.8**					**0.2**	**1.5**	**1.9**	**1.9**
Other countries[a]									
USA		2.1	1.5	1.6	0.1	1.3	2.1	2.7	2.3
Japan		0.0	0.4	2.7	0.8	-0.1	0.5	0.9	1.2
China		2.6	2.6	2.0	1.4	2.0	1.6	1.9	2.1
Russia[b]		5.1	6.8	7.8	15.5	7.0	3.7	5.0	3.6
South-Eastern Europe									
Serbia		2.3	1.5	2.3	1.5	1.3	3.2	3.3	2.9
Turkey		8.9	7.8	8.9	7.8	7.7	11.0	8.5	7.4

* Kopint-Tárki forecast
a Non-harmonized comsumer price indices
b December/December
EU-15 = Countries that joined the European Union before 2004 ("Old EU Member States")
New EU-13 = Countries that joined the European Union in 2004, 2007 and 2013 ("New EU Member States")
Source: Eurostat, national statistical offices, OECD

Table. 2.3.

Harmonized Unemployment rates in the EU Member States

(Unemployed as a percentage of the labor force aged 15-74, ILO-Eurostat)

	Weight	2012	2013	2014	2015	2016	2017	2018*	2019*
Germany	16.4	5.4	5.2	5	4.6	4.1	3.8	3.5	3.2
France	12.6	9.8	10.3	10.3	10.4	10.1	9.4	9.0	8.4
Italy	11.7	10.7	12.1	12.7	11.9	11.7	11.2	10.8	10.4
Netherlands	3.3	5.8	7.3	7.4	6.9	6.0	4.9	4.0	3.4
Belgium	2.2	7.6	8.4	8.5	8.5	7.8	7.1	6.4	6.2
Luxembourg	0.1	5.1	5.9	6.0	6.5	6.3	5.6	5.3	5.0
Ireland	0.9	15.5	13.8	11.9	10	8.4	6.7	5.8	4.5
Greece	2.1	24.5	27.5	26.5	24.9	23.6	21.5	20.0	18.9
Spain	9.2	24.8	26.1	24.5	22.1	19.6	17.2	16.0	15.8
Portugal	2.0	15.8	16.4	14.1	12.6	11.2	9.0	7.5	6.9
Austria	1.8	4.9	5.4	5.6	5.7	6.0	5.5	4.9	4.9
Finland	1.0	7.7	8.2	8.7	9.4	8.8	8.6	8.4	8.3
Estonia	0.3	10	8.6	7.4	6.2	6.8	5.8	6.0	6.3
Slovakia	1.1	14	14.2	13.2	11.5	9.7	8.1	7.1	6.3
Slovenia	0.4	8.9	10.1	9.7	9	8.0	6.6	5.4	5.6
Cyprus	0.2	11.9	15.9	16.1	15	13	11.1	7.1	9.0
Malta	0.1	6.3	6.4	5.8	5.4	4.7	4.0	4.0	4.0
Latvia	0.4	15	11.9	10.8	9.9	9.6	8.7	7.6	8.2
Lithuania	0.6	13.4	11.8	10.7	9.1	7.9	7.1	6.7	6.8
Euro Area	**66.3**	**11.4**	**12**	**11.6**	**10.9**	**10**	**9.1**	**8.6**	**8.2**
United Kingdom	12.6	7.9	7.5	6.1	5.3	4.8	4.4	3.2	4.4
Denmark	1.1	7.5	7.0	6.6	6.2	6.2	5.7	5.1	4.9
Sweden	1.9	8	8	7.9	7.4	6.9	6.7	6.2	6.3
Hungary	**2.0**	**11.0**	**10.2**	**7.7**	**6.8**	**5.1**	**4.2**	**3.7**	**3.4**
Czech Republic	2.1	7.0	7.0	6.1	5.1	4.0	2.9	2.5	2.5
Poland	7.8	10.1	10.3	9.0	7.5	6.2	4.9	3.9	4.0
Romania	4.0	6.8	7.1	6.8	6.8	5.9	4.9	4.5	4.5
Bulgaria	1.4	12.3	13	11.4	9.2	7.6	6.2	6.0	6.4
Croatia	0.8	15.8	17.4	17.2	16.1	13.4	11.1	8.4	9.6
EU-15	**78.9**	**10.6**	**11.1**	**10.5**	**9.9**	**9.2**	**8.4**	**7.7**	**7.6**
New EU-13	**21.1**		**10.1**	**10.4**	**7.9**	**6.6**	**5.5**	**4.5**	**4.7**
EU-28	**100.0**		**10.9**	**10.2**	**9.4**	**8.6**	**7.6**	**7.0**	**7.0**
BREXIT	**87.4**					**9.2**	**8.3**	**7.6**	**7.3**
Other countries[a]									
USA		8.1	7.4	6.2	5.3	4.9	4.3	3.9	4.2
Japan		4.3	4.0	3.6	3.4	3.1	2.8	2.4	2.2
China[b]		4.5	4.6	4.7	4.1	4.0	4.0	4.0	4.0
Russia[c]		5.5	5.5	5.1	5.6	5.7	5.4	5.1	5.3
South-Eastern Europe									
Serbia[d]		24.6	22.1	19.2	17.7	15.3	13.5	11.6	9.5
Turkey		8.4	9.0	9.9	10.3	10.9	11.2	10.9	10.6

* Kopint-Tárki forecast
a Non-harmonized unemployment rates
b Urban unemployment
c OECD statistics, unemployment rates for the age group 15-64
d National statistics, unemployment rates for the age group 15-64
EU-15 = Countries that joined the European Union before 2004 (“Old EU Member States”)
New EU-13 = Countries that joined the European Union in 2004, 2007 and 2013 (“New EU Member States”)
Source: Eurostat, national statistical offices, OECD

Macroeconomic indicators for Hungary and Kopint-Tárki forecast

(year-on-year change, percentage)

	Data					Forecast			
			2018			2018		2019	
	2016	2017	Q1	Q2	Q3	2018 July	2018 Oct.	2018 July	2018 Oct.
GDP aggregates, real growth									
GDP total	2.3	4.1	*4.5*	*4.9*		4.4	**4.6**	3.6	**3.6**
Domestic Demand	1.0	6.8	*5.8*	*5.0*		5.3	**5.5**	4.6	**4.6**
Private Consumption	3.4	4.1	*5.3*	*4.8*		5.1	**5.0**	4.0	**4.0**
Public Consumption	0.9	2.0	*0.5*	*0.6*		2.0	**0.5**	1.0	**1.0**
Gross Fixed Capital Formation	-11.7	18.2	*17.1*	*15.0*		11.0	**13.3**	7.5	**7.5**
Gross Capital Formation	-5.4	17.1	*10.4*	*7.6*		7.5	**9.0**	7.5	**7.5**
Export	5.1	4.7	*4.2*	*8.6*		6.1	**6.7**	7.0	**7.0**
Import	3.9	7.7	*5.5*	*9.1*		7.4	**7.9**	8.3	**8.3**
Industrial production	0.9	4.8	*3.1*	*3.9*	*3.9* [a]	5.5	**4.7**	5.0	**5.0**
Consumer Price Index	0.4	2.4	*2.0*	*2.7*	*3.5*	2.7	**3.0**	2.8	**3.5**
Employment, Earnings									
Number of Employed, p. avg.[b]	3.4	1.6	*1.5*	*1.2*	*0.9* [c]	0.8	**0.8**	0.6	**0.5**
Employment Rate [b]	58.0	59.3	*59.6*	*60.2*	*60.3* [c]		**60.1**		**60.5**
Unemployment Rate [b]	5.1	4.2	*3.9*	*3.6*	*3.7* [c]	3.6	**3.7**	3.2	**3.4**
Unit Labor Costs, in EUR[d]	7.8	10.5	*10.5*	*8.3*		5.6	**6.1**	4.1	**4.9**
Gross Nominal Wages	6.1	12.9	*12.4*	*11.6*	*12.8* [a]	10.5	**11.3**	8.0	**8.5**
Net Real Wages	7.4	10.3	*10.2*	*8.7*	*9.1* [a]	7.6	**8.2**	5.1	**4.8**
Savings Rate, % of GDP [e]	4.5	5.1	*5.7*	*5.9*		3.8	**5.3**	3.2	**4.7**
Current Account Balance % of GDP	6.2	3.2	*2.9*	*2.4*			**1.9**		**1.6**
Current and Capital Account Balance % of GDP	6.2	4.2	*5.1* [f]	*2.5* [f]		4.0	**3.0**	4.0	**3.0**
General Government									
Balance, ESA-2010, % of GDP	-1.6	-2.2	*-0.4*	*0.2*		-2.8	**-2.8**	-2.8	**-2.8**
Gross Government Debt % of GDP	76.0	74.0	*73.9*	*74.2*		72.5	**72.5**	71.0	**71.0**
Short-term Government Yields (3M), eop	0.06	-0.01	*0.00*	*0.13*	*0.12*	0.3	**0.3**	0.5	**0.5**
Long-term Government Yields (10Y), eop	3.16	2.02	*2.39*	*3.59*	*3.54*	3.0	**3.5**	3.0	**4.0**
External Assumptions									
Internat. Trade in Goods and Services [g]	2.5	4.9				4.7	**3.4**	4.5	**3.3**
Brent Oil Price ($/bbl, p. avg.)	52.4	54.2	*53.6*	*74.6*	*75.1*	72.0	**74.0**	68.0	**78.0**
GDP Real Growth, Eurozone	1.8	2.4	*2.1*	*2.2*		2.3	**2.0**	2.0	**1.8**
GDP Real Growth, New EU Members	3.1	4.6	*4.3*	*4.2*		3.9	**4.1**	3.4	**3.5**
EUR-HUF, period average	311	309	*311*	*317*	*324*	314	**319**	310	**319**
EUR-USD, period average	1.11	1.13	*1.23*	*1.19*	*1.16*	1.22	**1.19**	1.23	**1.18**

a July-August
b ILO methodology, period averages, aged 15-74, including public workers
c June-August
d Manufacturing, based on gross value added and monthly average compensation of employees in euro, cumulated from the beginning of the year
e Net lending of households according to the financial accounts statistics, as a percentage of GDP
f Seasonally adjusted by the NBH
g Trade of goods and services, data based on IMF World Economic Outlook

3. The Hungarian Economy

According to the data revised in October, the Hungarian GDP expanded by a year-on-year growth rate of 4.9 percent in the second quarter, a 13-year record. Apparently, the economy, could accelerate further from the 4.5 percent seen in the first quarter, a respectable feat amid the conditions of the the gradually easing global eonomic growth.

On the other hand, the *seasonally and working day adjusted* numbers paint a slightly different picture: the Hungarian economy reached its cyclical peak in the last quarter of 2017, with a growth rate of 5 percent. This has been followed by a very gradual slowdown, with growth rates of 4.8 and 4.9 percent, repectively, in the first and second quarter of 2018. This means that the Hungarian economy follows, after all, the global trends.

On the *production side,* the unadjusted growth rate could accelerate due to several factors: to various degree, the dynamism of agriculture, industry and construction improved. By contrast, market services lost some steam but this was more than offset by the improvement in the other three economic sectors.

It should be noted, however, that the improvement in agriculture was a result of somewhat better than expected weather conditions while the upturn in industrial growth is merely a result of more working days in Q2 2018 than in the same quarter of the last year. What is really informative is about the evolution of the drivers of growth is the slight further acceleration of fast construction growth (mostly driven by public sector demand, fueled by EU funds) and a moderation in the expansion of market services (primarily reflecting an easing of consumption demand).

As for industrial output, even looking at the unadjusted data shows that during the first half of the year the pace of industrial growth oscillated between undistinguished and inferior. Industrial growth was mainly driven by domestic sales, something virtually unprecedented in Hungary in the recent decades.

Although we expect a somewhat higher growth rate of export sales in the last third of the year, partly due to a moderate upturn in automotive production, the disappointing export sales are not a cjoincidence: it is a reflection of the halt in the upturn of German industrial export sales. This highlights a curious fact that while in general the international environment is still favorable, with relatively good growth rates, this environment does not seem to be particularly conducive to export growth anymore.

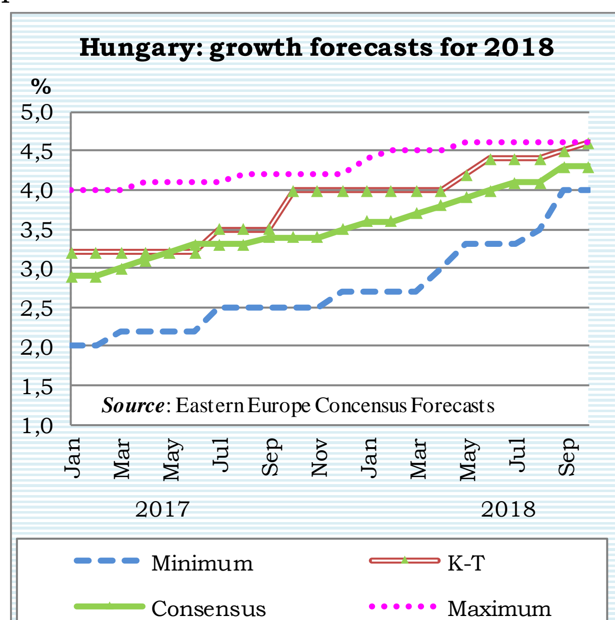
So instead of external demand buttressing industrial expansion, the main growth driver is state demand (and, to a lesser degree, corporate and household demand) in construction and still strong domestic (in significant part, household) demand in the case of market services. Therefore the main question is whether the deceleration of services

growth will continue in the second half of the year. According to the assessment of the Kopint-Tárki, no: household and state demand will keep the pace of services growth around 4.5 percent, at least for the rest of the year.

On the *expenditure side*, it is noteworthy that the acceleration of (unadjusted) growth was entirely due to improving *net export*, more specifically, the outstanding growth in the export of goods (by more than 9 percent). But neither the production statistics data, nor the external trade statistics data provides any clue about how such a dynamic export growth was registered in the second quarter by the GDP statistics. Therefore it can be assumed that this is a temporary blip. A more substantial but also less spectacular strengthening of export may occur in the last quarter, along with the moderate industrial upturn.

This means that the deceleration of *private consumption expenditures* (to 5.4 percent from 5.9 percent in the first quarter) is probably more significant than the registered upturn in exports. The question is whether this continuation will continue. Since wages continue to grow at a fast pace through the rest of the year, we expect that private consumption will continue to expand at a rate near 5.5 percent in the second half. On the other hand, the gradual slowdown in fixed capital formation growth is likely to continue but the overal pace remains dynamic, mostly (but not exclusively) due to the EU-cofinanced investment projects.

On the whole, domestic demand is expected to keep growing at a stable pace in the second half of the year while net export will deteriorate somewhat compared to the second quarter. As a result, overall GDP growth will only slightly decelerate, to about 4.5 percent, from the average pace of 4.7 percent in the first half. While formerly only the most sanguine forecasters expected the GDP to grow by 4.6 percent in 2018, after the revised second-quarter numbers we can envisage such an annual growth rate without being extremely optimistic.



The next year will be different, however, as one of the main growth factors – the wage-fueled consumption demand – will abate. The wage negotiations are still to begin, so the outcome is uncertain, but is is likely that nominal wages will not rise again at a two-digit pace in 2019. At the same time, inflation will pick up pace and the growth of employment loses more pace as the labor reserves slowly dry up. As a result, the present fast growth of real wage disbursements will ease into a respectable medium pace, putting a dent on consumption growth.

Investment growth will also slow down considerably. Since the actual spending of the EU funds by the recipients occurs well after the allocation of funds, it is likely that the utilization of these funds will reach its peak in 2019. But the pace of growth will probably fall well short of the rise seen this year. The investment growth among private firms and households may continue at a similar pace in the next year as in 2018. Within business investments, the focus may slowly shift from capacity expansion to productivity improvement.

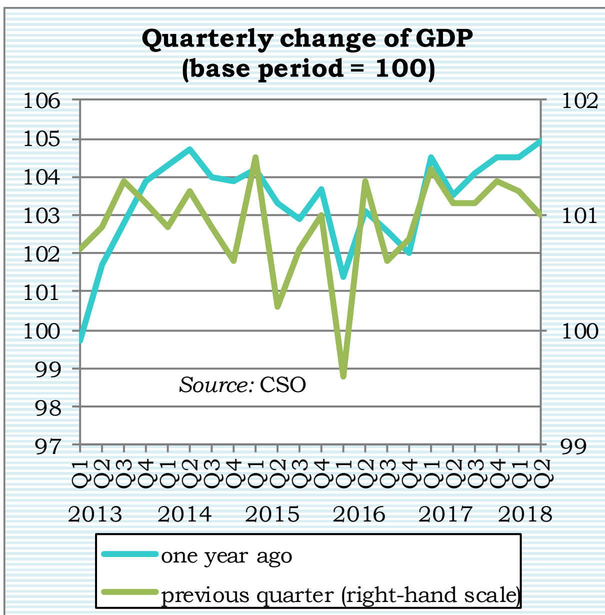
Export growth may gain some speed in 2019 if the year-end industrial upturn continues into the next year for a while. But this is unlikely to offset the significant slowdown of domestic demand. Hence **we maintain our earlier growth forecast – 3.6 percent – for 2019**.

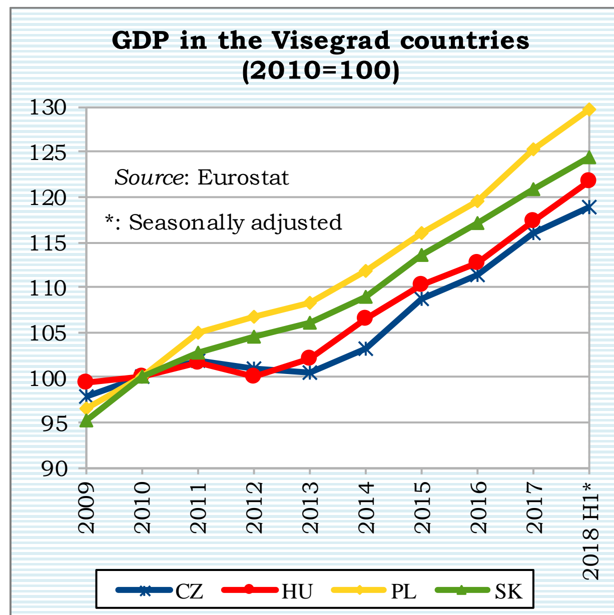
3.1. GDP and its components

In the second quarter of 2018, real GDP expanded by a year-on-year 4.9 percent, the highest rate since 2005. It seems that the economy not just kept up but even increased its pace from the 4.5 percent registered in the first quarter. The seasonally and working day adjusted growth rate, however, suggests a different trend: After the 4.8 percent in the first quarter, the growth rate slightly decelerated to 4.7 percent in the second. The quarter-on-quarter growth rate was 1 percent, also a deceleration compared to the previous quarter. The unadjusted rate of 4.9 percent was the fifth highest within the EU and the third among the new member states (bested only by Poland and Latvia).

The strengthening of the unadjusted growth rate took place amid a somewhat weakening dynamism of *domestic demand*, primarily due to the slowdown of private consumption growth . The consumption expenditures of households grew by 5.4 percent in the second quarter, a deceleration from the 5.9 percent in the first quarter, while actual individual consumption was up 4.8 percent (5.3 percent in the first quarter). Collective coonsumption continued to grow at a modest rate.

Fixed capital formation growth also decelerated in the second quarter, but only by slightly, to a still very dynamic 15 percent. At the same time, the structure of investment growth became more favorable: private firms, among them manufacturing firms, increased their investments on a year-on-year basis, unlike in the first quarter. The change of inventories contributed negatively to overall growth, just as in the first quarter – as a result, total capital formation expanded only at a less buoyant pace of 7.6 percent. Due to the simultaneous slowdown in consumption and investment growthz resulted in a deceleration of growth of overall *final domestic use* to 5 percent from the 5.8 percent registered in the first quarter.

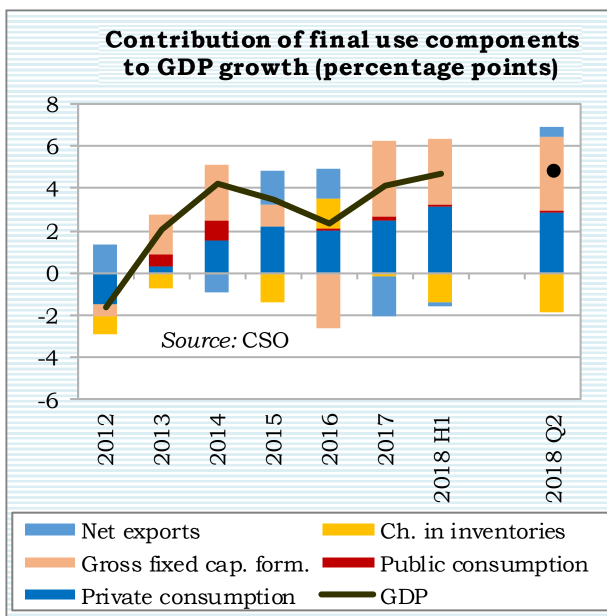


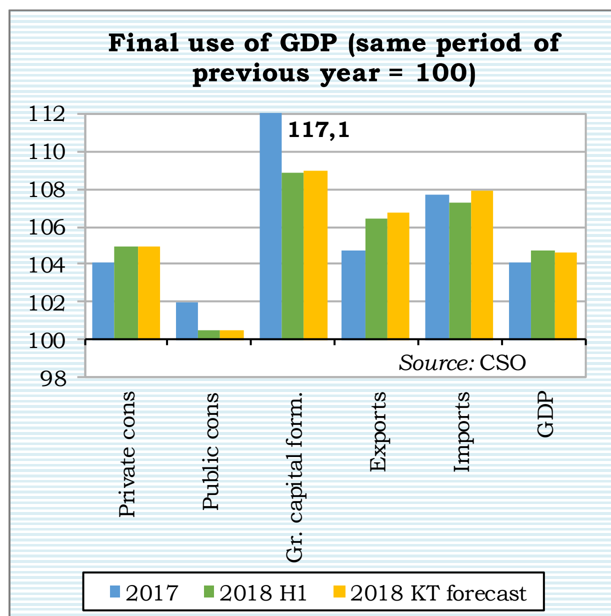


This means the only the favorable developments in the external trade of goods of services could keep GDP growth from losing steam compared to the previous quarter. The growth contribution of net export unexpectedly turned into the positive, thanks to the fact that the acceleration of export growth – especially goods export growth – substantially surpassed import growth acceleration. This is surprising since the merchandise trade statistics numbers show the exact opposite: they report an import boost exceeding export acceleration.

On the *production side*, agricultural, industrial and construction value added growth gained speed, while the expansion of services somewhat decelerated. Industrial value added grew by 3.8 percent – industry is apparently still held back by the underperforming automotive sector. As for the agricultural growth of 2 percent in the second quarter (and 1.4 percent in the first half), it cannot be taken for granted that it will continue through the whole year: what is known at present about grain yields is a mixed picture at best, and the autumn drought may severely affect the autumn sowings. Services growth, although decelerated, is still dynamic (4.6 percent in the second quarter). But the slowdown was quite broad-based within market services: only finance and real estate services managed to keep up pace.

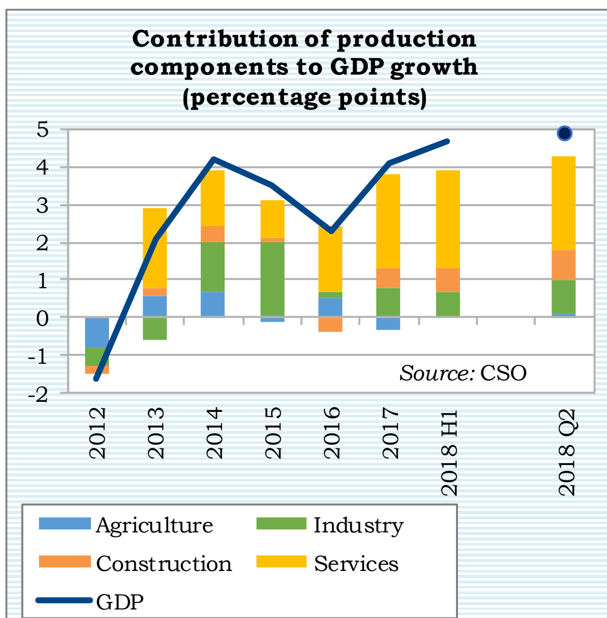
On the whole, even after taking iinto account the second-quarter slowdown, it can be said that the first half of the year was characterized by the dynamic expansion of consumption and fixed capital formation on the expenditure side, and the dynamic growth of market services. This basic trend is expected to continue through the second half of the year as well. While the pace of fixed investments is likely to moderate further compared to the second quarter, the slowdown in private consumption may halt, due to the ongoing wage growth and the high level of consumer confidence. At the same time, the negative contribution of the change in inventories may ease in the

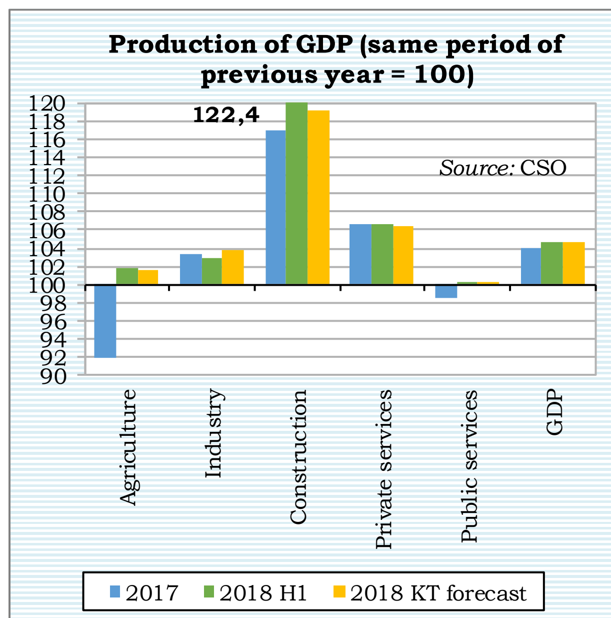




coming quarters. As a result, we expect final domestic use to expand with a renewed dynamism, after a less sanguine second quarter. Net export, on the other hand, will contribute to GDP growth negatively again, after a lull in the second quarter, pulling down the overall growth rate to about 4.5 percent after the average 4.7 percent in the first half.

On the *production side*, it is already clear that industrial growth will not pick up pace in the third quarter. Some acceleration may occur in the fourth quarter, but the yearly average growth of industrial value added is likely to remain below 4 percent. Construction growth, on the other hand, will continue at a very high pace (even if not as frantic as in the first half) and the growth rate of services is expected to stabilize at a pace well above 4 percent. On the whole, we expect **the annual average GDP growth to be 4.6 percent in 2018.**





3.1.1. Production of GDP
Industry

After the less-than-impressive growth of 4.2 percent in the first four months, industrial growth lost even more pace: the average year-on-year growth rate in January-August was as low as 3.6 percent. The moderately rising trend in the seasonally adjusted output was constantly interrupted – last time by a severe impact of the summer stoppages in several sectors. The expected rebound materialized in August but it was extremely spectacular.

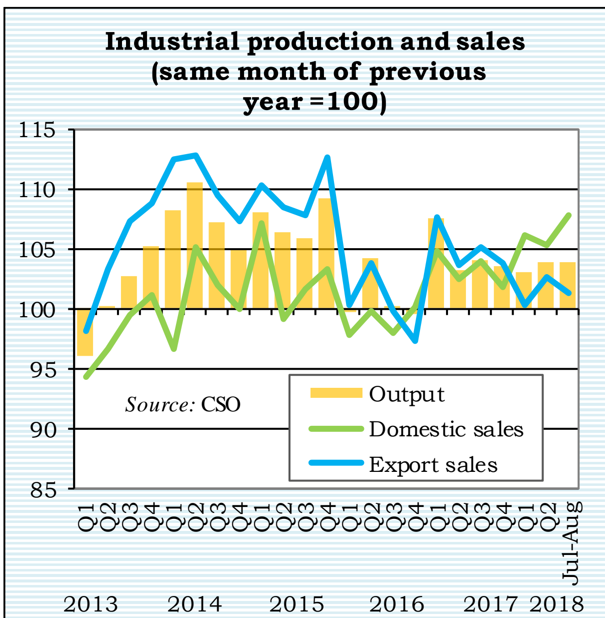
Mediocre growth in the first half

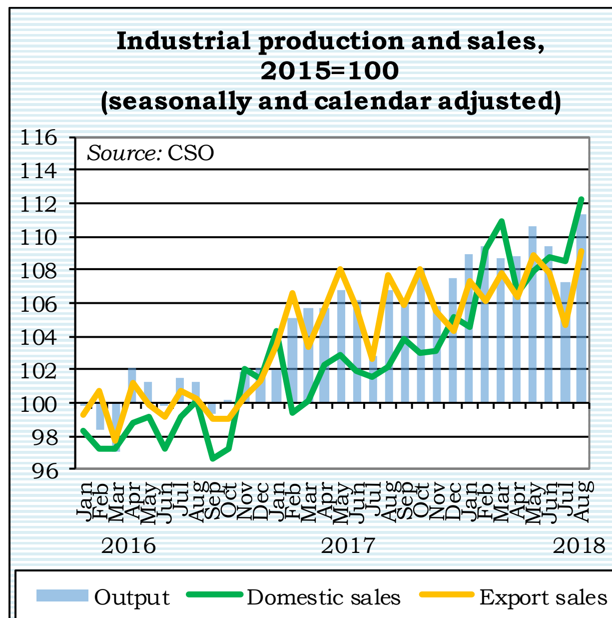
The detailed data show that industrial growth was in great part held back by the cyclically plummeting machinery and equipment industry and the slightly negative growth of the automotive sector. By contrast, the second most important industrial subsector, the electronic industry, was a positive driving force, with a further acceleration in July-August.

Automotive and machinery sectors struggle

In a highly atypical way, industrial growth has been primarily driven by domestic, rather than export sales. While domestic sales growth (6.3 percent in January-August) defied expectations, export sales expanded by merely 1.5 percent, an absolute disappointment. The seasonally adjusted data shows almost no rising trend in the monthly export sales volumes – domestic sales, on the other hand, have a clear, albeit hectic, rising tendency.

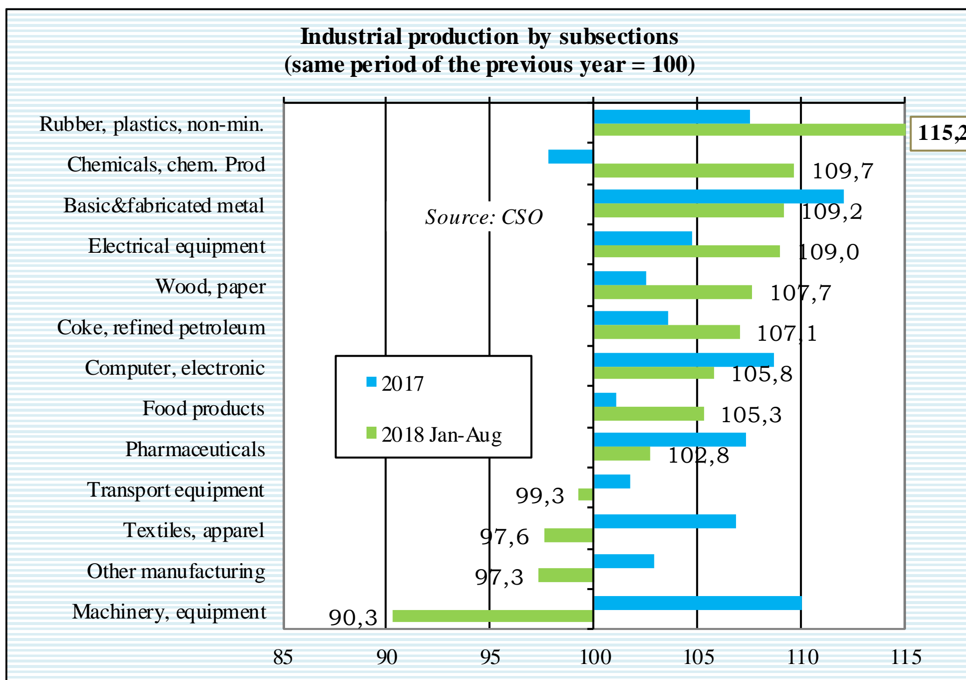
The weak export sales growth can be in a great part attributed to the fact that German manufacturing export also struggles. As a result, only a handful of manufacturing branches (electronic industry, electrical equipment industry and, a less clear case, rubber, plastic and non-metallic minerals industry) show a more or less clear rising trend.





While domestic sales growth is likely to continue in the last third of the year, even if at a somewhat less buoyant pace, export sales may gain some momentum. This acceleration, however, probably will not be spectacular because the auto industry upturn will remain limited. Due to the problems around the type authorizations of several Audi vehicle models, the output of the Audi pland may temporarily suffer, and even the removal of production of one of the new flagship models from the Hungarian production site may take place in early 2019. As a result, we revised our forecast downward: at present, we expect industrial production to grow at a rate slightly above 4.5 percent in 2018, with some possible acceleration in 2019.

Auto industry unlikely to regain former role as growth driver any soon



Construction

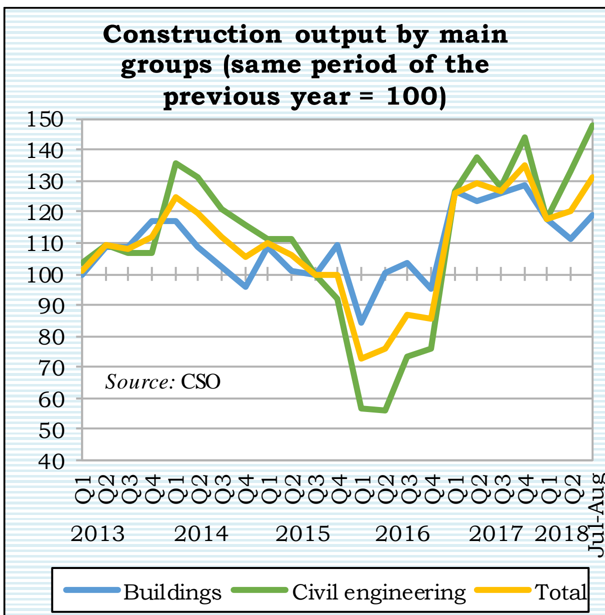
Construction output has been growing at an outstanding pace, even if the average growth rate in the first eight months (22.6 percent) is below the near-30 percent pace seen in 2017. After the first months of a more moderate and more volatile growth, the summer months saw a reacceleration, pulling the cumulative average growth rate above the 20 percent threshold.

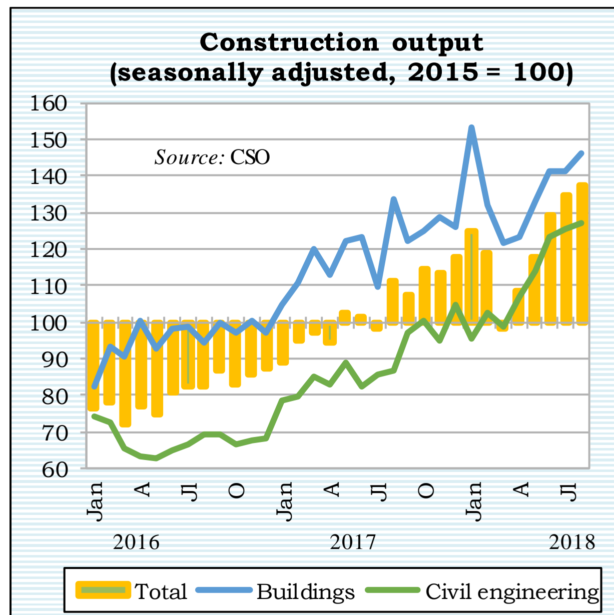
Strong growth continues

Within construction, *civil engineering* was the primary driver of growth, with an average expansion of 34.6 percent in January-August. This means that there was also no slowdown in this segment of contruction compared to 2017, even though the expansion of EU-cofinanced road and railway construction projects is taking place from a much higher base level than in the last year. The seasonally adjusted data shows a continuation of the strong rising trend seen from early 2017, with a brief interlude of stagnation AROUND THE TURN OF THE YEAR. This trend may moderate in the coming months but even so, the annual average growth in civil angineering will remain close to 30 percent.

Road and railway construction boom

In the meanwhile, the *construction of buildings* grew at a less spectacular rate (14.9 percent in January-August). Here the slowdown from the last year was substantial. Beside industrial buildings, the construction of commercial buildings, education buildings and housing construction were the drivers of growth. While the pace of growth is still impressive, both the data regarding new orders and about the project starts registered in the second quarter suggest the continuation of the gradual slowdown. Yet, the average growth in building construction may surpass 14 percent in this year. **Construction output as a whole may grow at a rate slightly above 20 percent in 2018**.





Housing market

After the very steep year-on-year growth of *dwellings built* in the first quarter (by 64.7 percent), the second quarter saw a sharp deceleration to 6.1 percent. As a result, the cumulative growth in the first half was 30.2 percent, a considerable slowdown from the annual growth of 44 percent in 2017.

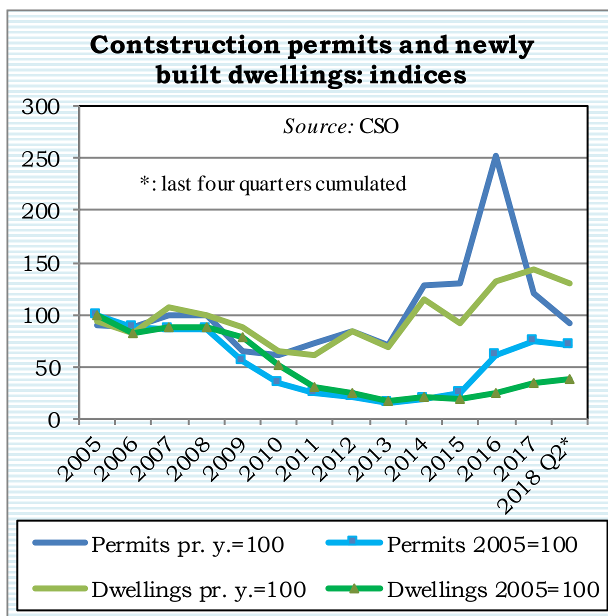
Housing construction boom slowed down in Q2…

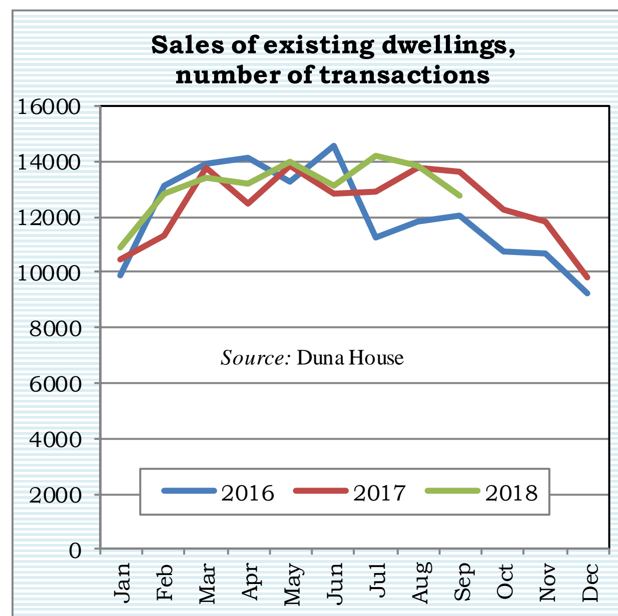
It is uncertain whether this second-quarter slowdown has any implications for the near future. The *longer-term* prospects are certainly dimming – this is underlined by the steep year-on-year decrease in the number of *building permits issued* – by 20.2 percent in the second quarter. As things stand at present, the housing boom will severely hit after 2019, when the preferential tax rate on housing construction (5 percent) will be restored to the baseline level (27 percent).

On the short term, however, the growth in the number of dwellings built is likely to rebound – the second-quarter slowdown may be a one-off correction after the uncharacteristically high growth in the first quarter. Demand for new homes continues to rise and the impending raise in the housing vat rate makes developers scramble to complete the ongoing projects by the end of 2019, which gives an additional boost to current building activity. But even so, the underwhelming second-quarter data suggests that the overall number of dwellings built may not reach 20,000 in 2018 as previously hoped.

….but may regain momentum in Q3

In the meanwhile, the transaction number regarding the purchase and sale of existing homes grew by a year-on-year 2.9 percent in January-September. The continuation of this moderate growth is expected for the rest of the year. Demand slightly grew further in much of the year – although not in August and September – according to one of the major housing market firm. Demand is helped by new easing of the conditions of accessing to the CSOK (family home





allowance scheme) benefits: from March, families who already have a dwelling and intend to buy an existing dwelling can apply for CSOK.

According to the CSO, the price of both new and existing homes continued to rise dynamically – at least if the so-called pure price change is considered – in the second quarter. The total price change (that includes the composition effect) was negative in the case of existing dwellings. The total price change in the case of new homes, on the other hand, even accelerated in the second quarter, to 9 percent. The ongoing strong demand for new dwellings suggests that prices will keep rising in the near future.

3.1.2. Final use of GDP

Household income, consumption and savings

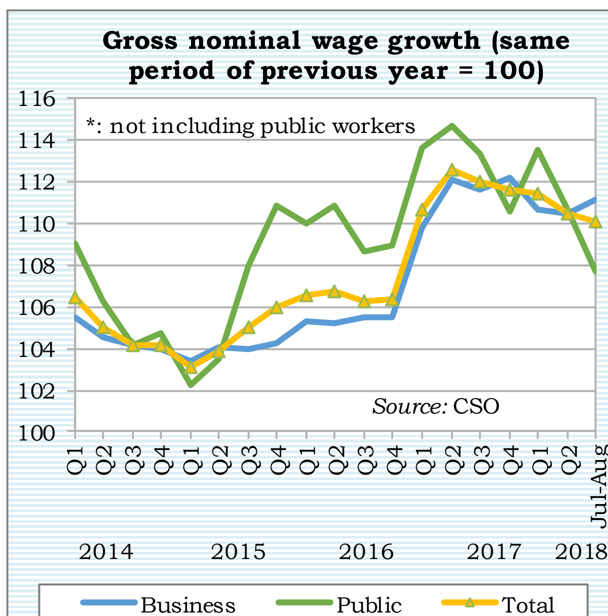
After the first-quarter growth of 11.4 percent (without public workers), wage growth slightly decelerated. But even so, the growth rate of nominal wages in the first eight months was 10.7 percent, not including public workers. The slowdown is predominantly due to the *public sector*, while wage growth kept up its growth rate, on average, in the business sector. Business sector wages grew by 10.8 percent and similar growth is expected for the rest of the year. The acute labor shortage keeps up wage growth for now, even if the number of firms whose wage raising capacities are nearly exhausted is probably rising.

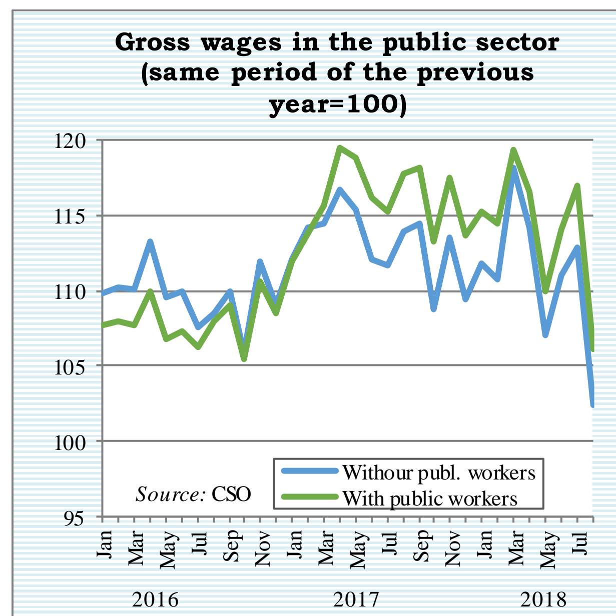
Still two-digit wage growth…

The outstanding rise of *public sector* wages in the first quarter (by 13.5 percent, without public workers) decelerated 10.9 percent in the first eight months. (More specifically, an extreme slowdown took place in August but that is clearly a one-off blip.) Two comments need to be made: first, the deceleration is mostly due to changes in the dynamism of *non-regular* wage elements (premiums, bonuses), and second, the deceleration mostly affected the public administration sector while education, healthcare and even social worker wages entirely or mostly kept up their pace of growth. We expect public sector wages to continue to rise at a more moderate pace of 10-11 percent during the last third of the year. If *public workers* are included, overall public sector wages grew at a higher pace, 14 percent.

On a national average, nominal wage growth – public workers included – rose by 11.8 percent in January-August, resulting in a real wage growth of 9 percent and (with a payroll employment growth of 1.3 percent) a *real wage disbursement* growth of 10.4 percent. This is a deceleration of 1.7 percentage points compared to 2017 as a whole.

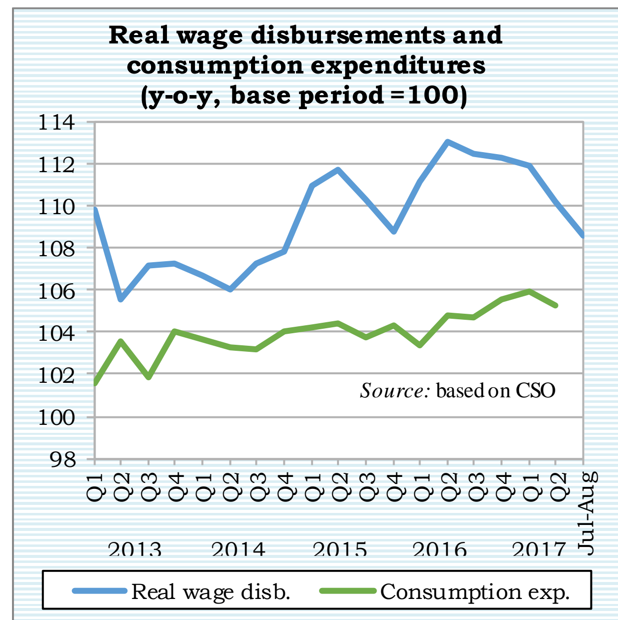
… but at a slower pace than in 2017





Since inflation is bound to accelerate further while payroll employment growth will continue to lose momentum, the annual average growth rate of real wage disbursements is likely to be at – or below – 10 percent while real wages may rise by about 8.5 percent in 2018. This is a considerable slowdown from the 10.3 percent growth of real wages in the last year.

Since both types of minimum wage were raised less drastically in 2018 than in the last year, the *whitening effect* of these raises on wage incomes was probably moderate compared to 2017. Hence it can be assumed that the slowdown of actual total *real household incomes* was less pronounced than the slowdown of the officially registered real wage disbursements. Household incomes are expected to expand by about 5.5 percent in 2018, a pace slightly below that in 2017.



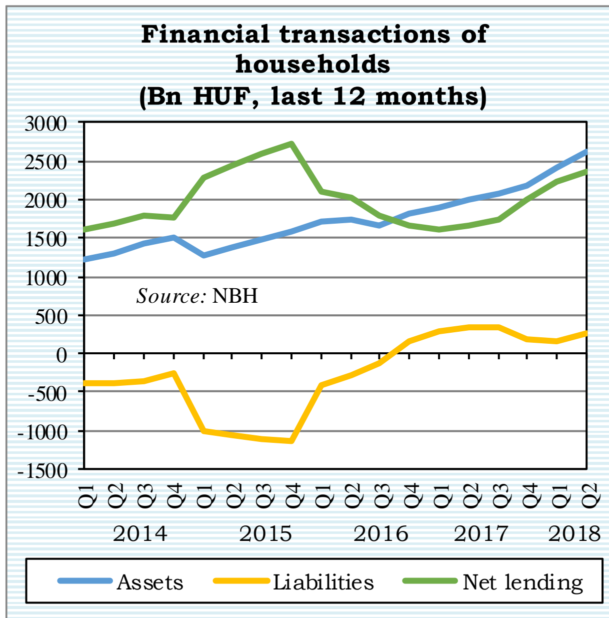
Household consumption expenditures, after the steep growth of 5.9 percent in the first quarter, were up 5.4 percent in the second. This resulted in an average growth rate of 5.6 percent in the first half of the year. We expect that the second-quarter growth will be only marginally slower than in the first half and the annual average growth will be around 5.5 percent in 2018. This means that, according to our expectations, consumption expenditure growth will be roughly in line with the growth of overall household money income in this year. The difference between the respective growth rates of real wage disbursements and consumption expenditures, however, is still substantial, even if gradually moderating.

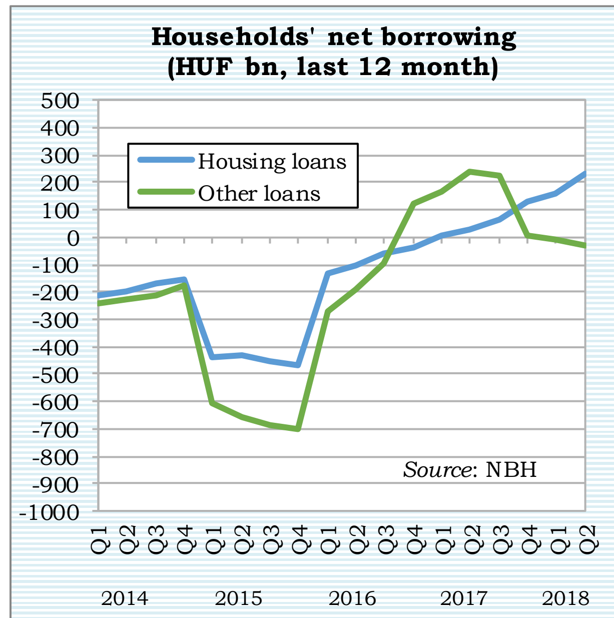
Household net savings, defying expectations, continued to rise substantially in the second quarter: the cumulative nominal value of *net financing capacity of households* in the last four quarters was nearly 18 percent higher by the end of the second quarter than at the end of 2017. Cumulative household *net savings rate* also climbed higher, to 5.9 percent (from the 5.2 percent in 2017).

The temporary growth of net savings is still not over

This was a joint result of rising gross financial savings, compared to which the expansion of net borrowing was strikingly moderate, considering the high household confidence. While housing borrowing is on the rise, other borrowing has been retreating during the last four quarters. It should be noted that the expansion of gross savings (that is, of 'net transactions of financial assets') was entirely due to savings into cash and deposits. This suggests – along with growing housing borrowing – that households accummulate much of these liquid assets with a view to using these assets for housing purchases.

Considering the strong rise in net savings in the first half, a decrease in the year as a whole now seems unlikely. But we still expect a slowdown in net savings growth and a decrease of the net savings rate, possibly below 5.5 percent. If household begin to use up the accummulated liquid assets for housing-related expenditures, it will decrease the level of both gross and net financial savings.





Investment

Investment growth was quite favorable in the second quarter: the year-on-year growth rate was 15.3 percent. On the other hand the CSO retroactively revised the first-quarter growth data – from 17.3 to 10.8 percent – which reflected, among others, a revaluation of first-quarter real estate investments. As a result, the average investment growth was 13.4 percent, somewhat disappointing compared to previous expectations. What is more, the CSO also revised the investment growth number for 2017 as well, *upward*, to above 23 percent, which makes the growth deceleration in 2018 quite substantial.

Decelerating but still dynamic investment growth

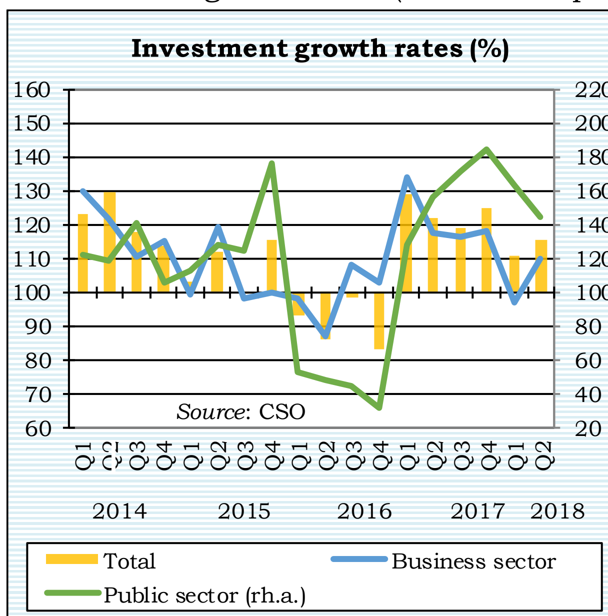
The seasonally adjusted investment volume in the second quarter surpassed the volume in the previous quarter by more than 4 percent – the rising trend has been uninterrupted from 2016. If this trend remains until the end of the year, as it is expected, the annual investment growth rate will probably exceed 10 percent.

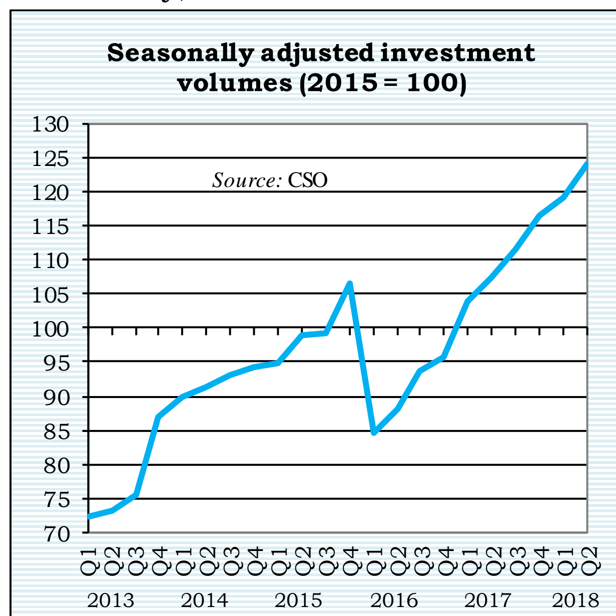
The *structure* of investment growth changed favorably compared to the first quarter: business sector investments, according to the CSO sectoral breakdown, began to grow again, by 10.1 percent. Public sector investments expanded by a spectacular 44.1 percent which, however, is a significant slowdown compared to the 62.8 percent in the first quarter.

Business sector investments are growing again…

The downside is that much of the improvement in the business sector can be attributed to the so-called quasi-fiscal sector – that is, heavily state-dependent or state-owned enterprises. According to the NBH, private sector investments grew as well in the second quarter, but not especially buoyantly. This is underlined by the 3.2 percent growth in *manufacturing* investments, an improvement compared to the stagnation in the first quarter but a quite underwhelming one. Automotive investment growth slowed down while other, smaller manufacturing subsectors (rubber and plastic industry, construction

…but primarily due to the quasifiscal sector



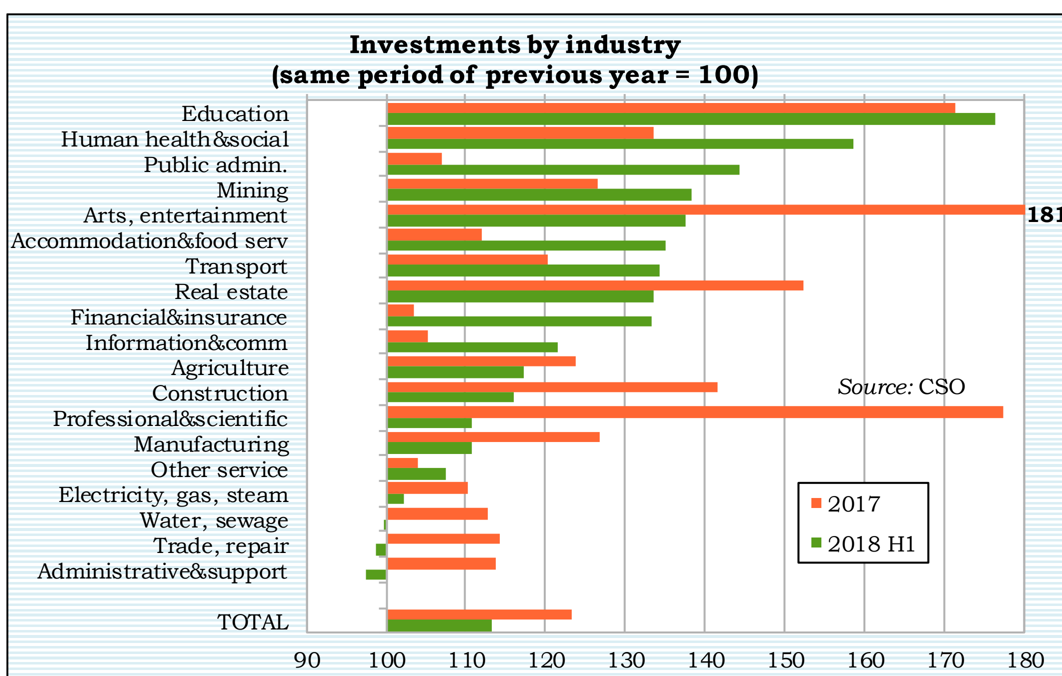


material industry, machinery and equipment industry) posted strong investment growth. Private sector investment growth was also hampered by a steep fall in information and communication investments, probably a correction after the similarly steep increase in the first quarter. Real estate investment growth also decelerated below 10 percent.

Modest growth in manufacturing investments

Quasi-fiscal investments, on the other hand, primarily drove the 21.9 percent growth in transport or the 66.6 percent growth in the energy sector. As for public sector investments proper, public administration investments soared by 76.4 percent, mostly in line with the previous quarters, while the growth in education and healthcare investments slowed down considerably. In the case of healthcare, this was actually more than slowdown: investments decreased by a year-on-year 1.5 percent in the second quarter.

Looking at the first half of the year as a whole, the most important sectors (in terms of investment volume) – manufacturing, transport, real estate – saw a sharp deceleration compared to 2017. But even so, the large majority of sectors posted two-digit investment growth rates in the first half. The continuing spending of EU funds will largely keep investment growth dynamic in the public and quasi-fiscal sector, even if the gradual slowdown continues in the former. Manufacturing subbranches evolve in various directions, hence no substantial acceleration is expected here. Real estate investment growth, on the other hand, may regain speed after the disappointing second quarter. On the whole, we expect only a mild further deceleration in the second half of the year, hence overall **investment growth is likely to surpass 10 percent by 2-3 percentage points in 2018** as a whole.



External trade

After the steep fall in 2017, the decrease of trade surplus has decelerated in 2018, but the deceleration is somewhat less profound than previously expected. While trade surplus fell by about 17 percent in 2017 in euro terms, the first eight months saw a year-on-year decrease of about 13 percent on an annual basis. The improvement was not a result of strengthening export growth, as previously hoped: import growth simply has weakened more steeply than export growth compared to the last year. Export growth remained mediocre (6 percent in January-Jule) because industrial export sales failed to gain momentum. Import growth, on the other hand, was held back by the fact that the expansion of final domestic use as a whole, on average, decelerated in the first half ot the year compared to 2017.

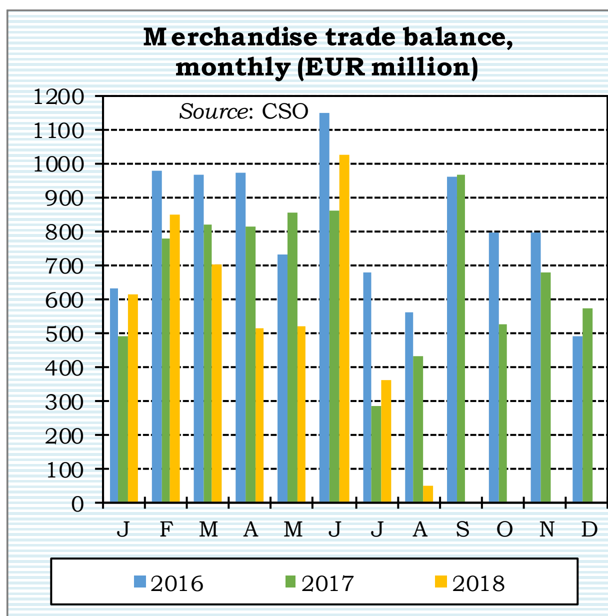
Gap between export and import growth rates is smaller than in 2017

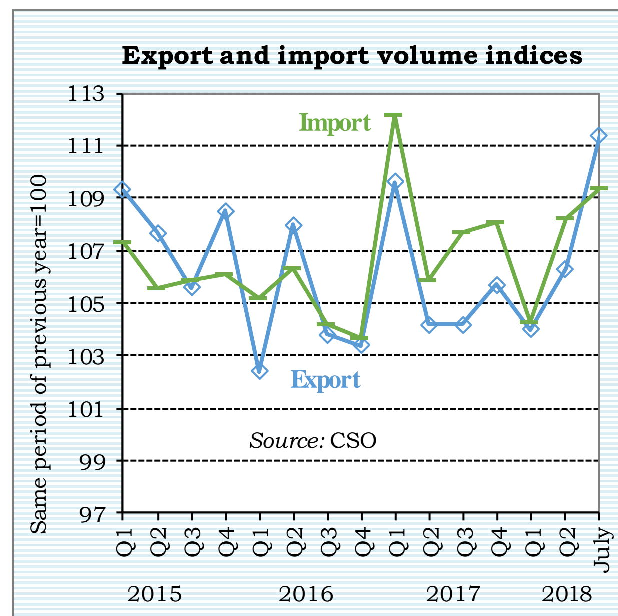
According to the detailed data on January-July, import deceleration was partly due to the decrease in fuel and energy import, and partly because of a deceleration of machinery and transport equipment growth. The latter may be connected to the fact that withing investments, investments in machines expanded at a lower pace than in 2017.

The structure of export has also shifted somewhat, at least according to the data on the first seven months: the export of machinery and transport equipment accelerated, mostly due to electrical equipment, road vehicles and, unusually, other vehicles. It should be noted that this is quite incongruent with the data provided by industrial statistics: in the latter, there is absolutely no sign of strengthening transport equipment export sales.

By contrast, food export began to decrease in 2018, which is an unsurprising spillover effect of the decline of industrial output in 2017.

In January-July, the *terms of trade* deteriorated only very moderately, by 0.3 percent – hence their impact on the trade surplus was minimal.

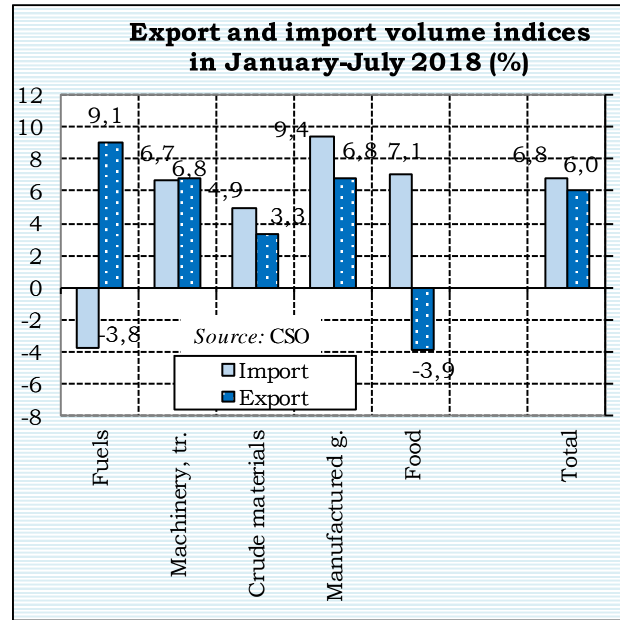




But things are different if we only consider the summer months when import prices got a boost from rising oil prices. From June, the terms of trade have been deteriorating at a pace above 1 percent, which means that the terms-of-trade impact on the trade surplus is not trivial any more.

Trade surplus likely to reach EUR 7-7.2 billion

Export growth may get a boost in the last third of the year but imporg growth is likely to be more dynamic than in January-August, too. The trade surplus will keep decreasing in an annual basis at a moderate pace – as a result, the annual trade surplus is likely to dip to EUR 7-7.2 billion, from the EUR 8.1 billion in 2017.

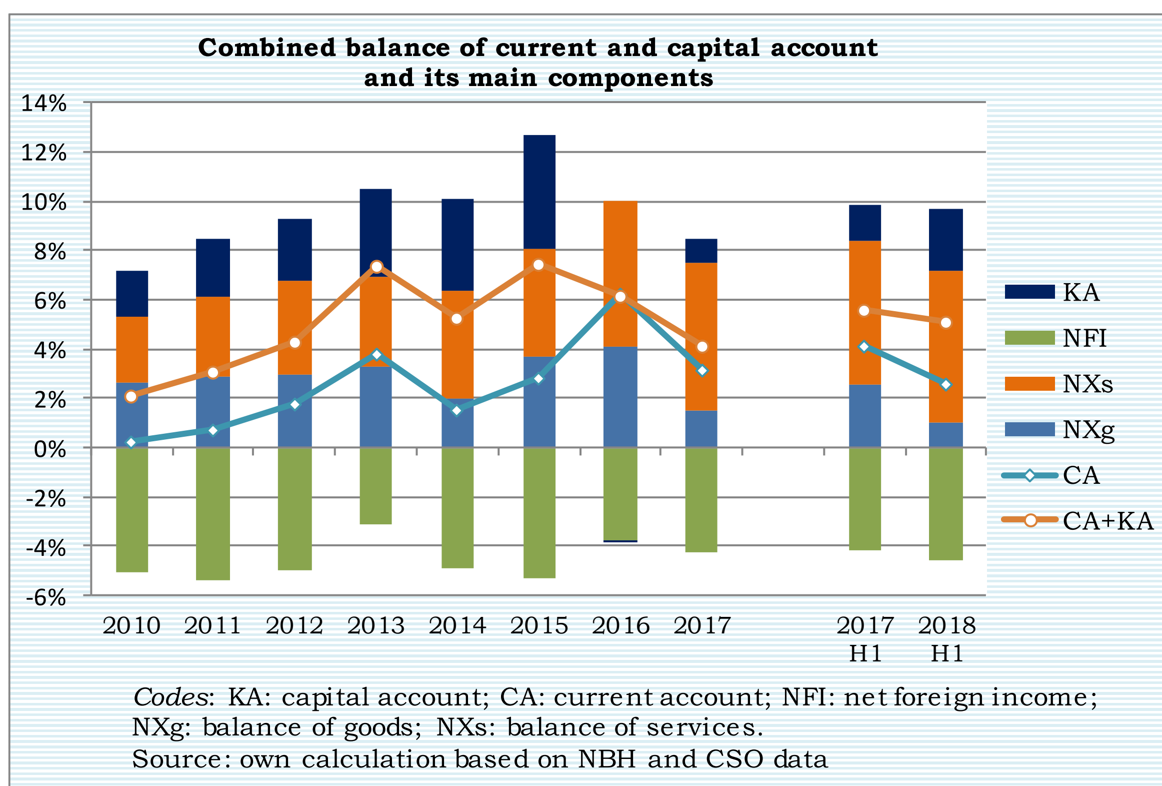


Current account and net investment position

According to the seasonally adjusted data published by the NBH, the consolidated current account balance (the so-called net financial capacity, calculated from above) dipped to 2.5 percent of GDP in the second quarter of 2018. At the same time, the surplus of the financial account (the net financial capacity „calculated from below) almost completely disappeared: it was reduced to merely 0.6 percent of GDP. Both indicators show the continuation of decrease in the external surplus from the peak at the end of 2015 (9 and 6.6 percent of GDP, respectively).

While in 2016 the consolidated balance deteriorated as a combined result of rising current account surplus and the temprary dearth of EU transfers, 2017 saw a decrease in the current account surplus simultaneously with an upturn in EU transfer inflows – this latter trend was continuing in the first half of 2018. As can be seen from the chart below, the current account surplus is contracting primarily due to the deterioration in the balance goods (light blue column); net export as a whole (light blue and orange columns together) that includes the balance of services (orange column), decreased much less spectacularly.

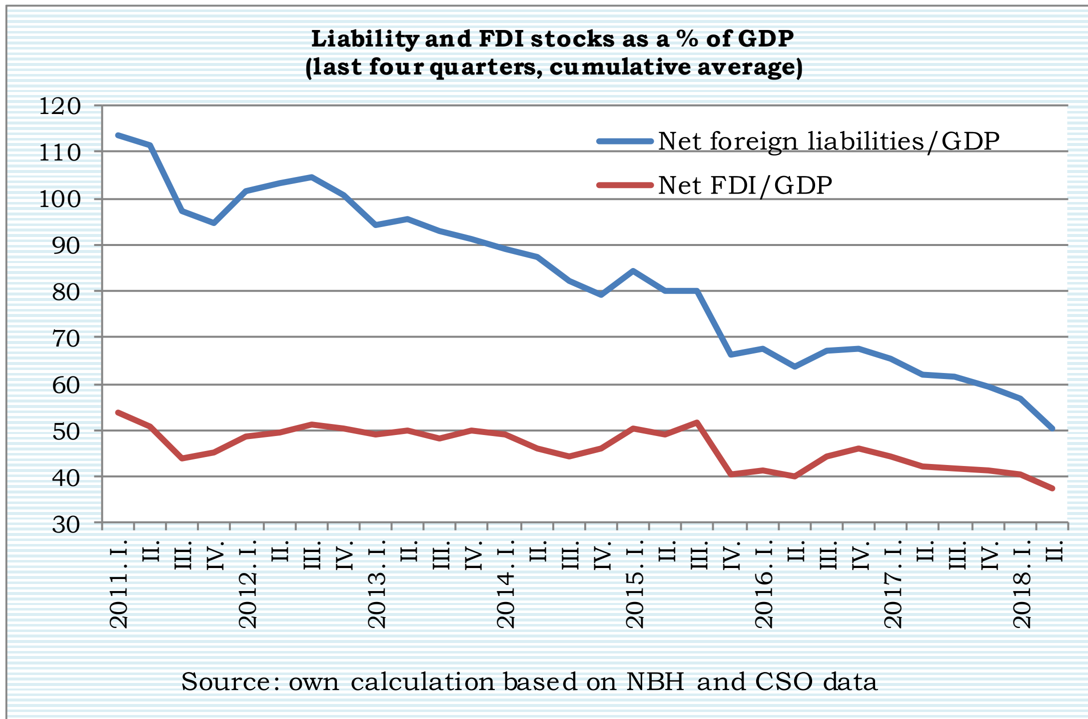
This highlights a fact that should be properly appraised: the net surplus of services has become a defining component of the broadly defined external trade surplus. In the first half of 2018, 85 percent of the external trade surplus (as a percentage of GDP) came from the net export of services while within the broadly defined export and import the share of services was only 20 and 15 percent, respectively. This explaines how the steep increase in final domestic use – which



Codes: KA: capital account; CA: current account; NFI: net foreign income; NXg: balance of goods; NXs: balance of services.
Source: own calculation based on NBH and CSO data

primarily affects the balance of goods – was accompanied by a relatively mild decrease of overall external trade surplus.

According to the stock statistics, the decreasing trend of net foreign liabilities (as a percentage of GDP) has been continuing in 2018. This is definitely welcome news in itself; less welcomed is the fact that this decrease in liabilities is not just a result of decreasing foreign debt: it is also due to the decline in the ratio of FDI stock to GDP, a trend that began at the end of 2016.



Source: own calculation based on NBH and CSO data

3.2. Employment, unemployment

According to the LFS survey, the pace of employment growth has been clearly decelerating since the second quarter – from 1.5 percent in the first quarter to 1.2 percent in the second and 0.8 percent in the third.

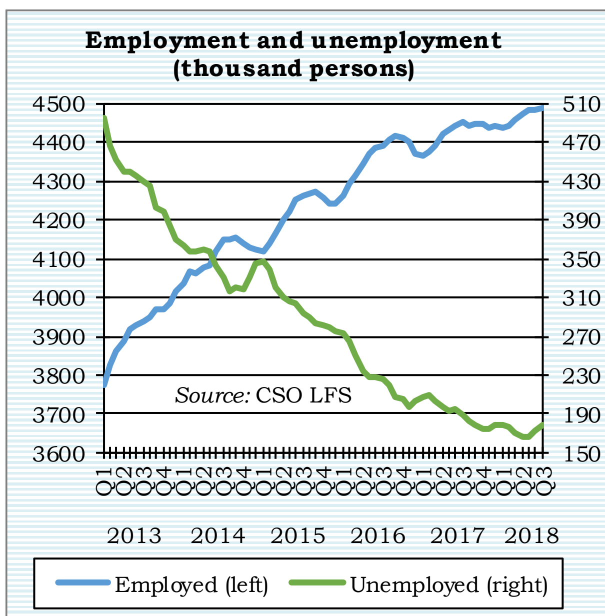
Employment growth slowing down…

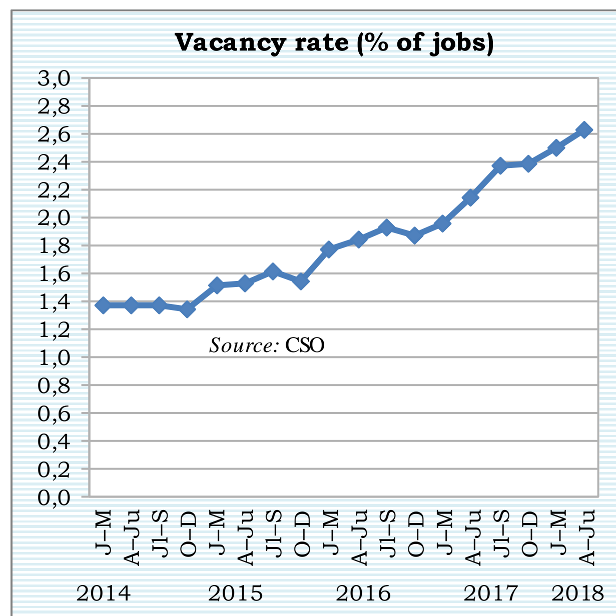
This deceleration cannot be attributed exclusively to the falling number of public workers: while the number of non-public worker employed was up 2.6 percent in the first quarter, the respective growth rates for the subsequent quarters were only 2.2 and 2.1 percent. (On the other hand, it is important to keep in mind that the number employed excluding public workers is still, deceleration notwithstanding, growing at a rate above 2 percent, for now.) The number of resident workers employed abroad has been decreasing throughout 2018, which means that the growth in the number of employed is no longer helped by workers working abroad. The overall deceleration of employment growth suggests that the effectively employable labor reserve is coming close to exhaustion, even if it is not yet as close as the headline numbers – that include public workers – suggest. The deceleration will continue during the rest of the year and the average pace of overall employment growth is unlikely to surpass 1 percent in 2018, with a further slowdown in 2019.

… even among non-public workers

The deceleration is clearly reflected in the unemployment numbers as well. In the third quarter, the unemployment rate was 3.8 percent, only 0.3 percentage point lower than in the same quarter of 2017. The annual average rate is expected to dip to 3.7 percent.

The vacancy rate reached record high in the second quarter of 2018: according to the CSO survey, it rose to 2.6 percent. Among the particularly hardly hit sectors are: administrative and support service activity (5,6 percent) and healthcare and social work (3.6 percent).





3.3. Fiscal, monetary and financial developments

3.3.1. Fiscal developments

Budgetary developments in 2018

In the first nine months of 2018, the cash-flow deficit of the central subsystem of the general government amounted to HUF 1,496 billion, which exceeds the annual deficit target by 10 percent. The deficit overshoot is primarily a result of the prefinancing of EU co-financed development projects. While the expenditures on EU co-financed projects amounted to HUF 1,498 billion in January-September – 62 percent of the yearly target – the revenues from EU programmes amounted only to HUF 341 billion, a merely 17.8 percent of the target.

VAT and PIT revenues grow fast

Within the central subsystem, the central budget deficit was HUF 1,543 billion in the first nine months while at the same time both the social security funds and the extrabudgetary funds achieved surpluses above HUF 20 billion.

By contrast, the *accrual-based* deficit of the general government as a whole amounted to merely 0.1 percent of GDP in the first half of the year, according to the CSO, while more specifically in the second quarter the fiscal balance was positive: a surplus of 0.2 percent of GDP.

The second-quarter surplus was primarily a result of the upturn in fiscal revenues that can be gleaned from the cash-flow data as well. The revenues from the payments of households – personal income tax, other tax payments, social security contributions – rose in line with the optimistic targets. The same can be said about the revenues from taxes on consumption, which is not trivial, considering that usually an disproportionally large chunk of the yearly PIT revenues flows into the budget during the last couple of months of the year.

Selected items of the central budget, 2016-18 target-outcome (HUF billion)

	2016 target	2016 outcome	2017 target	2017 outcome	2018 target	2018 Jan-Sep,. % of annual target
Central budget revenues	10 604	12 480	11 963	13 087	12 554	73.6%
Payments of economic units	1 557	1 593	1 578	1 564	1 354	64.5%
Taxes on consumption	4 681	4 610	4 929	4 879	5 266	75.1%
Payments of households	1 891	1 922	2 139	2 147	2 338	76.4%
EU subsidies of chapter-administered appropriations*	893	716	1 545	1 015	3	15.4%
Revenues from EU programmes					1 911	17.8%
Central budget expenditures	11 359	13 227	13 164	14 992	13 865	77.7%
Central budg. inst. and chapter-adm.	6 631	8 732	8 441	10 330	9 087	83.4%
EU expenditures of chapter-adm. appr.			2 555	1 325	2 418	62.0%
Interest expenditures	1 048	1 118	901	1 091	978	68.9%

*) From 2018 they are recorded under the header 'Revenues from European Union programmes'

Source: Hungarian State Treasury, Budgetary information, Balance sheets

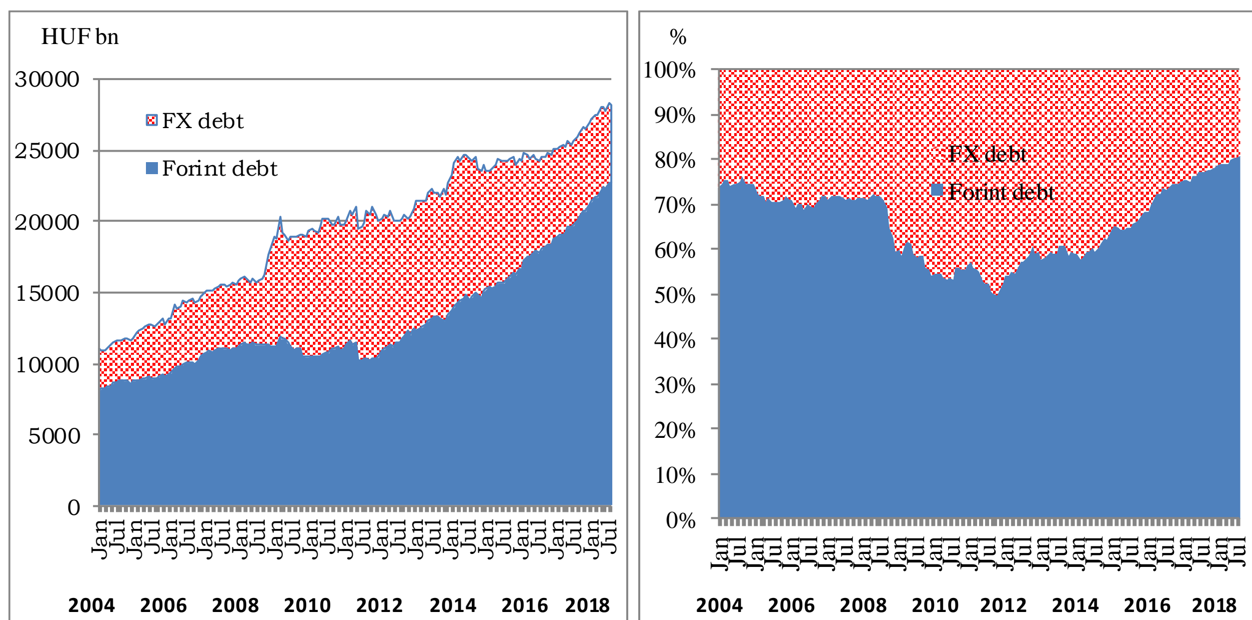
From this, it logically follows that annual revenues from both the payments of households and from taxes on consumption are likely to surpass the yearly targets considerably. This may be the case regarding payments from economic units, too, even if revenue inflows in January-September made up a somewhat smaller percentage (about 65 percent) of the yearly target.

On the whole, a higher share of the annual central budget revenue target materialized during the first nine months (73.6 percent) than in the same period of 2017 (65.8 percent).

Due to the enormous gap between the cash-flow and accrual-based fiscal numbers, it is very difficult to assess how realistic are the fiscal targets for 2018, especially in the light of the mounting doubts regarding whether the EU will eventually reimburse the funds spent by the government for advance payments to recipients. The EU does not limits its critique any more on irregularities and overpricings connected to specific projects but expresses its dissatisfaction more generally regarding the lack of transparency in decision mechanisms, especially in the case of local government projects. The government's reaction was to begin to recall funds that had been already disbursed to local governments but not yet spent by them. Since a large share of funds disbursed as advance payments is connected to projects that have not yet begun at all, in many cases the bills could not be presented to the EU before the end of the year anyway.

Retail security stock keeps growing

Breakdown of state debt by currency, HUF billion (left-hand chart) and percentages (right-hand chart)



In any case, the accrual-based fiscal account includes these items as fiscal assets, that is, potential revenues, until it becomes official that the EU will not reinburse some of the bills. (At the moment, of course, this is only a hypothetical possibility.) In the light of this, the annual fiscal target (a deficit amounting to 2.4 percent of GDP) is realistic at the moment. But it is uncertain whether a revision will become necessary in the future if the EU refuses to reimburse a part of the bills.

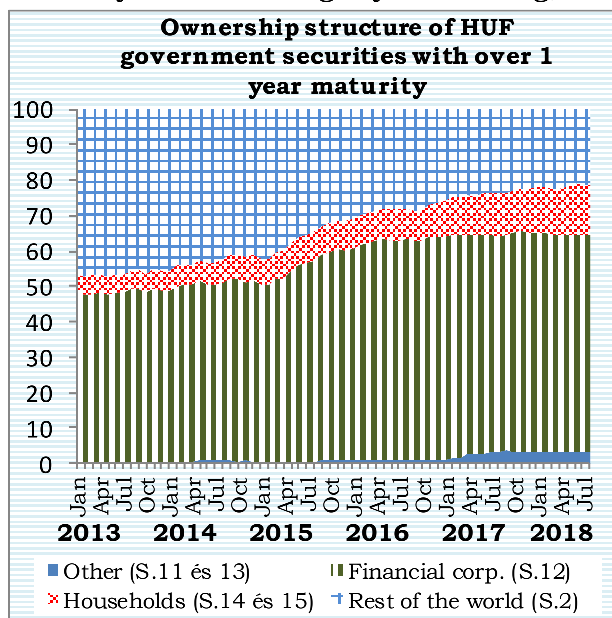
It should be noted that under ideal circumstances, an aconomic growth over 4 percent should be normally accompanied by zero deficit or even a slight fiscal surplus, in line with the principle of counter-cyclical fiscal policy, as it is the case in the Czech Republic, for example. Among others, the Maastricht rules prescribe that during cyclical upturns, governments should accumulate fiscal reserves to make room for stimulus in times of economic downturn.

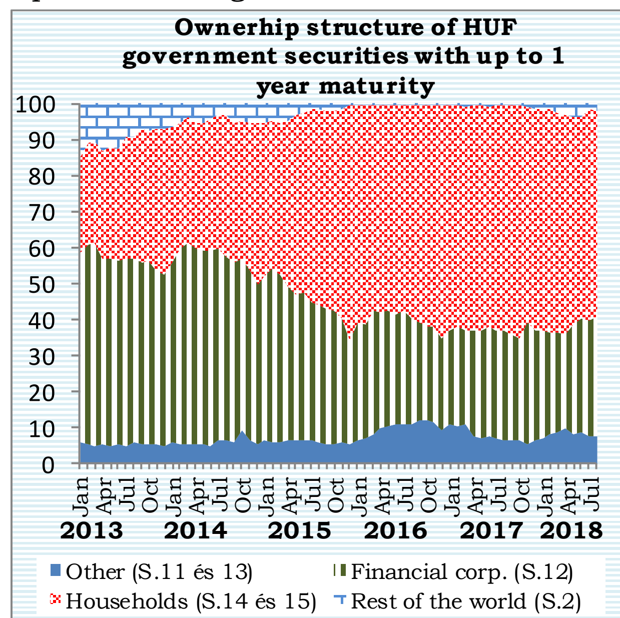
State debt

At the end of June 2018, consolidated general government debt was HUF 58,592 billion, which is a rise of HUF 1,846 from December 2017. Stated debt constituted 74.5 percent of GDP at end-June, including the debt of Eximbank.

Within overall debt, the share of forint debt continued to rise, which decreases the exposure of the state finances to exchange rate fluctuations. By the end of September the share of FX debt within overall debt fell to 19.11 percent from the 21.62 percent registered at the end of 2017.

The households' share within forint-denominated debt also keeps rising. Within government securities with up to 1 year maturity, retail securities dominate, but their share has somewhat declined (from 61.7 percent in December to 57.1 percent in August). On the other hand, the share of retail securities within maturities of over 1 year maturity has been slightly increasing, to 14 percent in August 2018





from 12.3 percent in December 2017. This suggests that even household demand is shifting toward longer-term, higher-yield securities.

3.3.2. Inflation

In the first nine months or 2018 consumption price level rose by 2.7 percent, a pace higher than expected by 0.2 percentage point. Since June, the monthly year-on-year price indices have been steadily above the 3 percent threshold. The prices of food, alcoholic beverages and tobacco products, and fuel prices drove the overall inflation above the expected levels, while the price indices of other groups of commodities remained quite moderate.

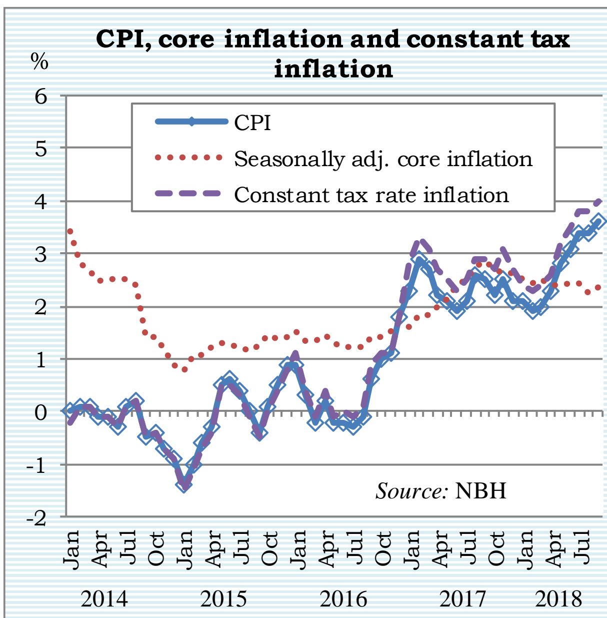
As a result, seasonally adjusted core inflation did not emulate the rising trend of headline inflation: it was 2.4 percent in January-September. Core inflation does not include unprocessed food items, other seasonal products and non-regulated energy prices. Monthly headline inflation rates soared above core inflation rates from May: in September, the former stood at 3.6 percent while the latter stood at only 2.4 percent. Since core inflation reflects the endogeneous inflationary pressures more accurately than headline inflation, one might conclude that the pace of inflation will moderate in the near future. However, it is cannot be excluded that the external factors captured in headlin inflation – most importantly, a possible continuation of global fuel price hike – will continue to divert headline inflation from its endogeneous inflation trajectory.

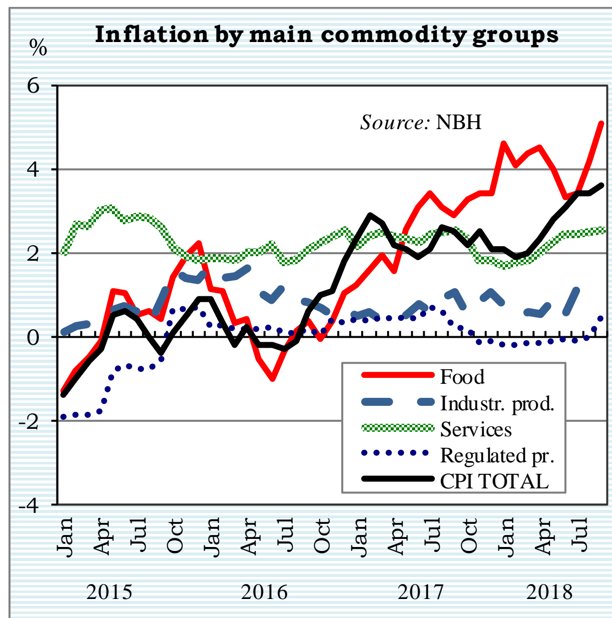
Rising food and oil prices in the recent months

Exchange rate still weak

Constant rate inflation, on the other hand, was higher than headline inflation, since the latter was affected by the reduction in the VAT rates of internet and telephone services (from 27 percent to 5 percent). The reduction of offal VAT rates has been also reflected in headline inflation while the similar cut of fish VAT rates largely failed to reduce the consumption price of fish products.

As for the consumption prices of the various commodity groups, it is noteworthy how unusually food prices evolved during the summer months. Seasonal food prices normally decrease in June-August, but this year it was different: In June-July food prices decreased much





less than against the previous month than they normally do, and in August they uncharacteristically remained flat. A striking result is that while in September 2017 the prices of vegetables and fruits had been lower than in September 2016, this September they were higher by 35 percent than in the same month of 2017. This is mostly due to the unfavorable spring weather.

Motor fuel prices soared due to the global oil price hike. While the consumption price of fuels decreased by 0,5 percent in the first three quarters of the last year, this year saw a rise of 1.4 percent. In September, however, the year-on-year price index of motor fuels was 14.9 percent.

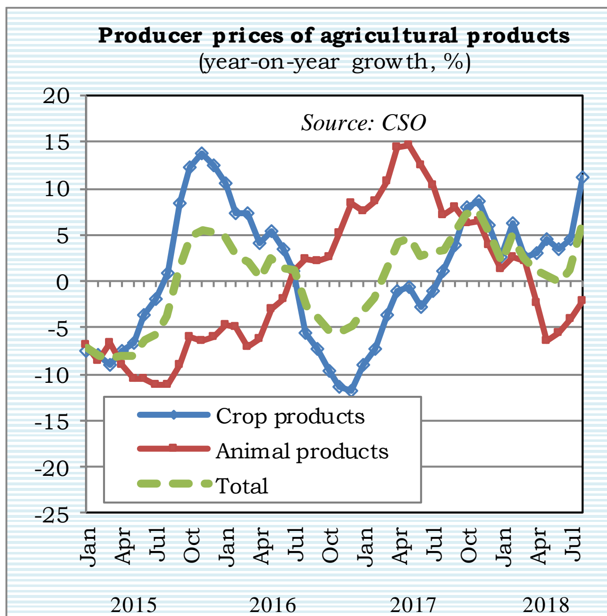
Our 2018 forecast revised to 3 percent...

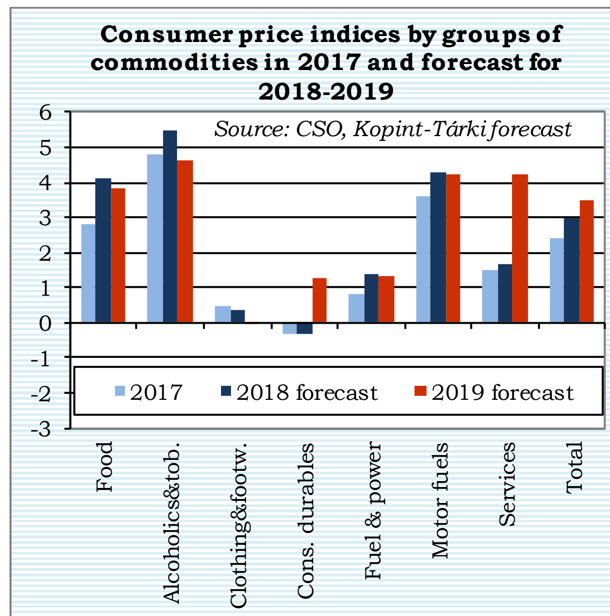
By contrast, the price hike os consumer durables was moderate in the first nine months of 2018, in spite of strong demand growth, even if the weakening of the forint had an upward effect on durable prices.

We have revised our inflation forecast for **2018** upward by 0.3 percentage point, to **3 percent**, in line with rising oil prices. While the future evolution of oil prices is quite uncertain, they will keep exerting an upward pressure on overall price levels.

and the 2019 forecast to 3.5 percent

Accordingly, we raised our **2019** inflation forecast as well, from the 3 percent in our previous report **to 3.5 percent**.





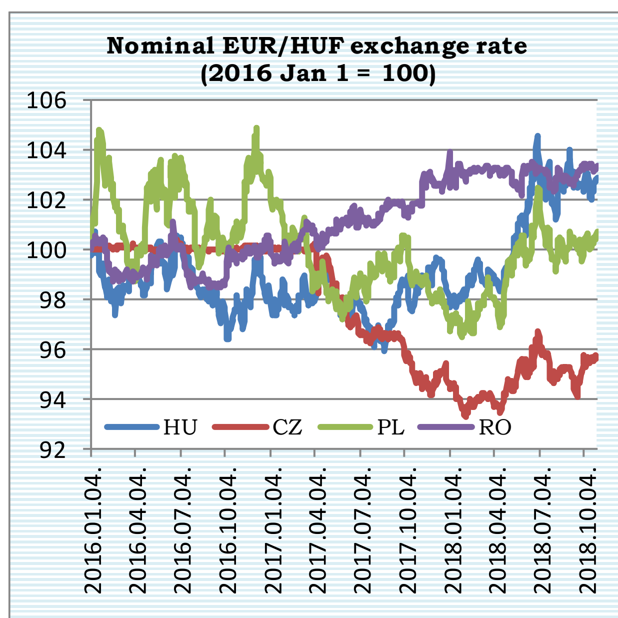
3.3.3. Pénz- és tőkepiaci folyamatok

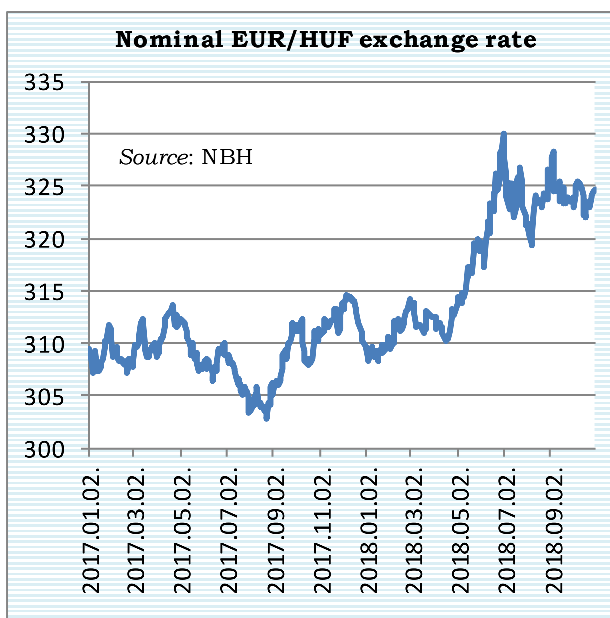
Exchange rate

The period of relative exchange rate stability that had lasted for more than two years ended in April 2018. While the forint had been fluctuating around 311 EUR/HUF within a narrow band of 2.25 percent between early 2016 and April 2018, it almost reached the 320 EUR/HUF threshold by the end of April. Since the middle of May, the euro exchange rate has been steadily above 320 EUR/HUF. It even approached 330 EUR/HUF for a short time more than once but usually it is oscillating within the range of 322-325.

Although the weakening of Eastern European currencies was primarily a result of internation financial market developments, the monetary tightening in the US and the concomitant strengthening of the US dollar, the degree to which the forint weakened against the euro strikingly exceeds the weakening of the Czech koruna or the Polish zloty. Compared to the early 2016, the cumulative weakening of the forint was ON PAR with that of the Romanian leu, but the depreciation of the leu took place much earlier, during the last year.

Due to the strengthening of the dollar vis-Á-VIS the euro, the forint depreciated against the dollar even more drastically than against the euro. By the end of October 2018, the USD/HUF exchange rate climbed above 282, a 10 percent weakening compared to the level seen at the beginning of the year, while the respective depreciation against the euro 'only' amounted to 5 percent. Against the Swiss franc the forint depreciated by 7.7 percent between the beginning of the year and early October (to 284 CHF/HUF).





Government security yields

In parallel to the weakening of the forint, government yields began to rise as well. Since January 2018, yields for all maturities rose almost continuously during the first half of the year: by June, five-year yields surpassed 2 percent while ten-year yields reached 3.5 percent. Ten-year yields temporarily eased during the summer months while five-year yields continued to rise and surpassed 3 percent during October. The rising trend in ten-year yields has also rebounded and in October the average yield consistently remained above the 3,5 percent threshold.

Yields rise at every maturity level

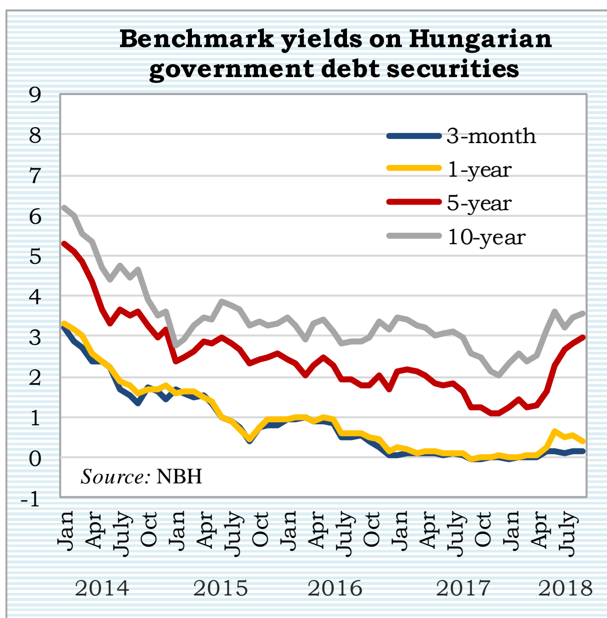
The rise of short yields was milder and – in part at least – temporary: after an intermezzo of several months, the three-month yield is at near-zero level again and the one-year yield dipped below 3 percent in October after the peak level of 0.6 percent in Jule.

The evolution of the ten-year yield in Hungary is different from the developments in the other counties of the region: while in 2017 the Hungarian long yield dropped more sharply than in the other countries, in 2018 its rebound was steeper in Hungary than in anywhere else in the region. During the third quarter, the Hungarian ten-year yield was the second highest, after Romania, even though in Romania yields began to rise as early as in the autumn of 2016. That said, the Czech long yield has been rising substantially as well: it climbed above 2 percent, which is a clear break from the former trend.

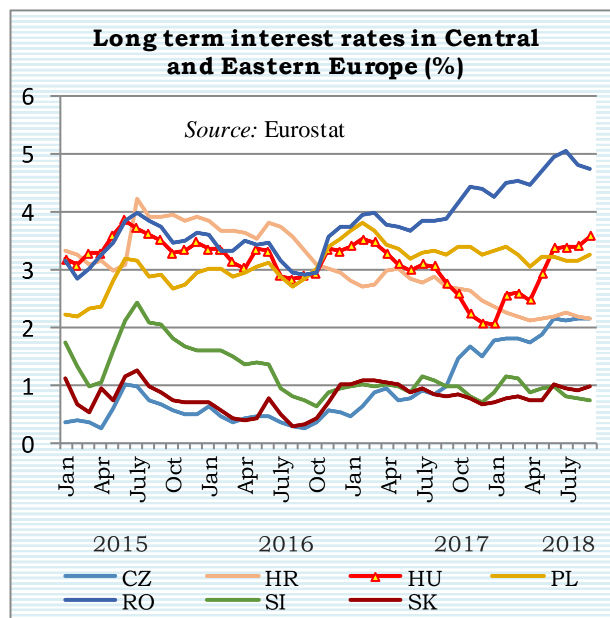
The Hungarian central bank has kept to its monetary policy stance, so far: it even declared that it intended to keep the policy rate unchanged, at 0.9 percent, until mid-2019. Since the policy rate has already lost much of its relevance, the markets are not particularly interested about its level anymore. On the other hand, the overnight deposit rate, currently at -0.15 percent, is likely to be raised soon, probably in 2018.

Policy rate likely to remain at 0.9% for a while

Benchmark yields on Hungarian government debt securities



Long term interest rates in Central and Eastern Europe (%)



3.3.4. Corporate and household lending

Corporate lending and deposits

Growing holdings in deposits

The amount of new corporate *overdraft loans* continued to expand during the January-August 2018 – the monthly amount surpassed HUF 1,000 billion in April and reached HUF 1.092 billion in August. At the same time, the rise in the amount of overnight and on demand *deposits* is even more spectacular: in August, the monthly amount approached HUF 5,200 bn, a year-on-year growth of HUF 1,461 bn.

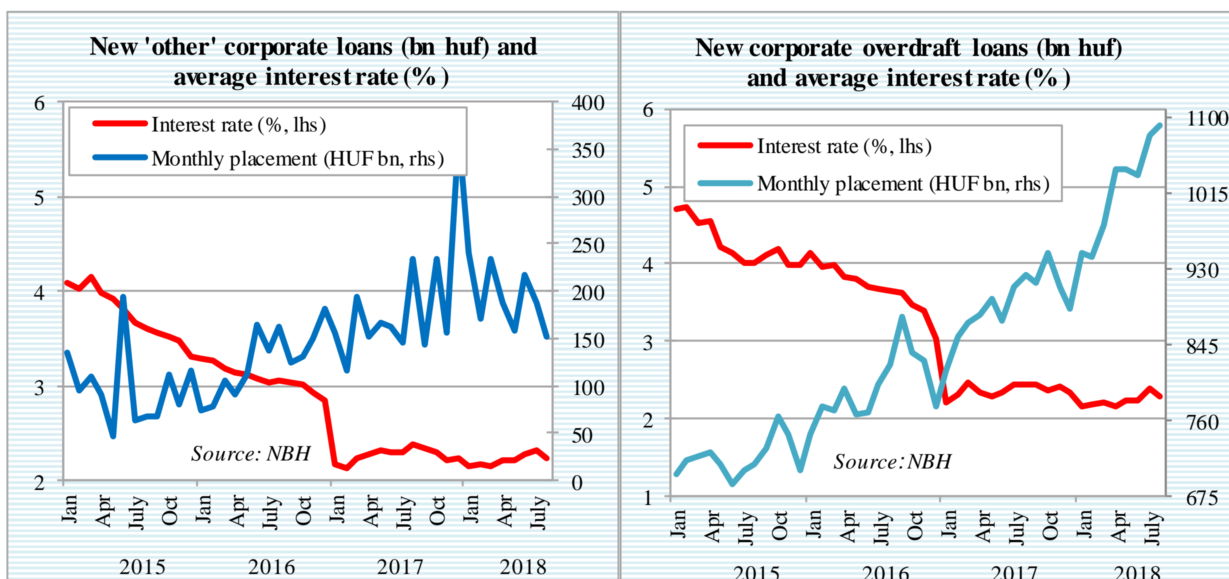
Less heartening is the stagnation in the monthly value of new *other loans*, most of which are investment loans. Also, the monthly value of new long-term deposits has markedly dropped.

As it seems, enterprises seem to shift their focus on shorter-term assets and liabilities. This is quite understandable in the case of deposits since the the interest rates of demand and term deposits are virtually identical: 0.01 and 0.09 percent, respectively, in August 2018. Only the interest rate of deposits with maturity over 2 years is discernibly higher: it oscillates slightly below 1.5 percent.

Interest rates hardly above 2 percent

Amid the generally low interest rate environment, much of the difference between the respective interest rates of overdraft and other loans has disappeared. The average interest rates of both overdraft loans and of other loans surpass 2 percent only minimally.

Loans with floating rates or loans with rates fixed for up to 1 year still make up the bulk (84 percent) of total other loans, most of which are loans of over EUR 1 million. Loans with rates fixed 5 years constitute less than 5 percent of total other loans, in value terms.



Household lending

In the first eight months of 2018, both housing borrowing and consumption borrowing expanded at a steep pace.

Housing borrowing on the rise

In the summer months, the monthly amount of new *housing loans* posted new record amounts well above HUF 80 billion. The average monthly amount in the first eight months was HUF 70.5 billion, a growth of roughly 36 percent compared to the same period of the last year.

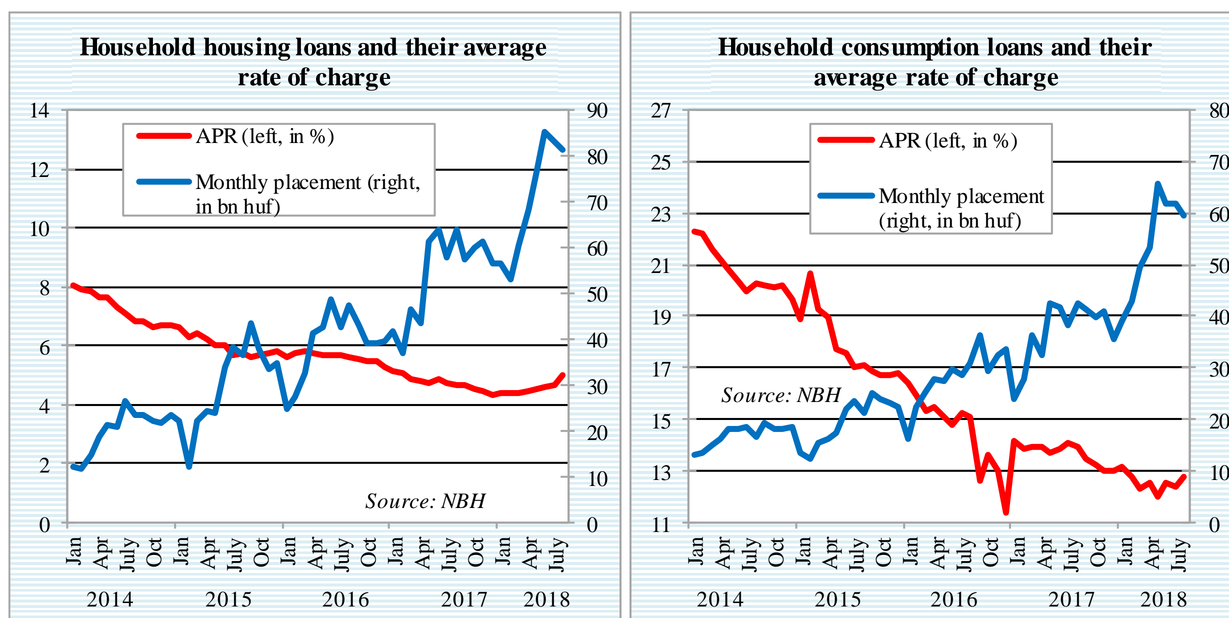
The upturn is no driven by further cuts in the APR of housing loans: the APR has been more or less stable since mid-2017. Hence, the driving force reflects a strengthening of houeholds' intention to purchase and build dwellings.

A similar rise has been observed regarding new *consumption loans* that peaked in May (with a monthly amount of HUF 65 billion), with a slight decrease afterwards. The APR of consumption is also roughly stable in 2018 at a level of 12-13 percent.

A welcome rise of the prominence of loans with long initial rate fixation

The structure of new loans agreements, in terms of the agreed conditions, has been changing positively: the relative share of riskier loans with floating rates is on the decline while fixed rate loans are becoming more prominent. The combined share of housing loans with floating rates or with rates fixed for only up to one year fell from 42.4 percent in August 2017 to 11.4 percent one year later. The share of loans with rates fixed for over 5 years, and even with rates fixed for over 10 years, increased considerably: their combined share was 46 percent in August 2018, as opposed to the 25.2 percent seen one year earlier.

Even though loans with fixed rate mean a higher initial interest burden, they substantially reduce the risk of housing borrowing for households on the longer run, as the central bank has duly warned several times. The interest rate difference between the various periods

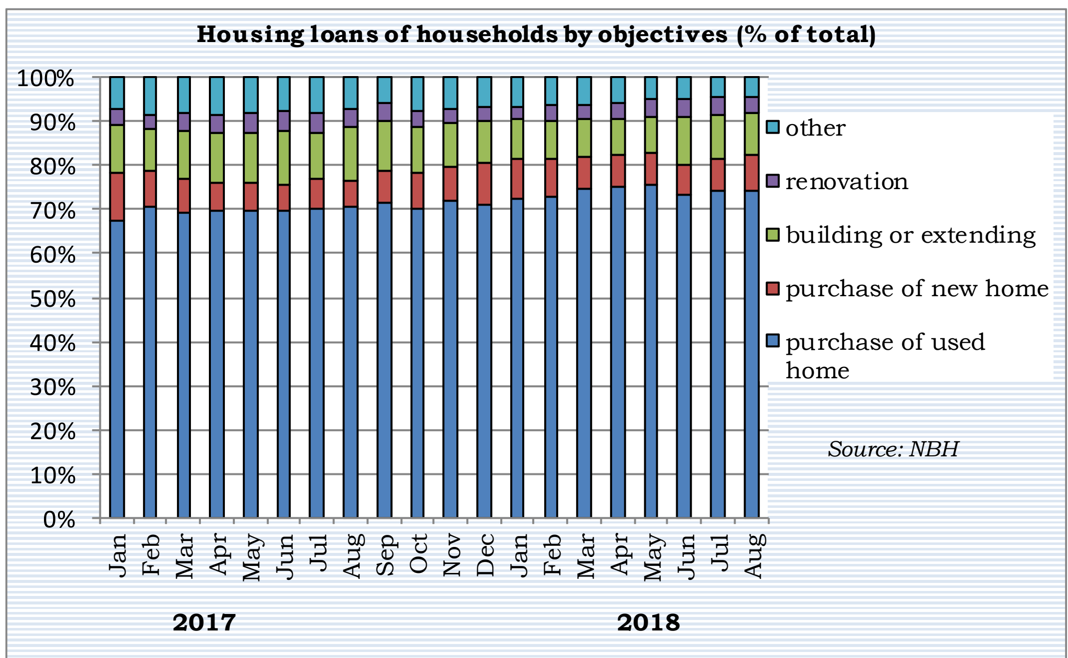


of initial rate fixation is not substantial but the monthly debt payments can differ considerably on the short run. The APR of floating rate loans was 3.62 percent in August, as opposed to the 5.52 percent APR of loans with rates fixed for 5-10 years. But even so, loans with an initial fixation for a longer period are certainly the best choice on the longer run, considering the rising interest rate environment.

About 75 percent of new housing loans are used for purchasing second-hand homes and this ratio keeps rising gradually. For purchase or building of new homes or extending existing homes, only about 18 percent of loans are used.

Purchasing existing homes is still the main driving force

The main driving force behind the rise of housing borrowing, apparently, is still the expanding deemand for used homes, fed by the recent experience of sgteadily rising prices. The long-awaited takeoff of loans used to buy or build new dwellings has only partially materialized so far, despite the incentives built into the CSOK (family home allowance) program.



Economic indicators 2009-2016, forecast 2018-2019
(percentage change)

	2010	2011	2012	2013	2014	2015	2016	2017	2018*	2019*
GDP AGGREGATES, ANNUAL REAL GROWTH										
GDP total	0.7	1.7	-1.6	2.1	4.2	3.5	2.3	4.1	4.6	3.6
Domestic Demand	-0.6	-0.3	-3.1	2.2	5.4	2.1	1.0	6.8	5.5	4.6
Private Consumption	-2.7	0.7	-2.3	0.5	2.4	3.7	3.4	4.1	5.0	4.0
Public Consumption	2.3	0.0	-0.2	6.6	10.0	0.0	0.9	2.0	0.5	1.0
Gross Capital Formation	4.5	-3.5	-6.9	5.7	12.4	-1.3	-5.4	17.1	9.0	7.5
of which: Fixed Capital Formation	-9.5	-1.3	-3.0	9.8	12.3	4.7	-11.7	18.2	13.3	7.5
Export	11.3	6.5	-1.8	4.2	9.1	7.2	5.1	4.7	6.7	7.0
Import	10.2	4.4	-3.5	4.5	11.0	5.8	3.9	7.7	7.9	8.3
PRODUCTION INDICES										
Agricultural Production (gross)	-11.1	11.1	-10.0	12.5	11.4	-2.4	9.3	-5.2	0.0	0.0
Industrial Production	10.6	5.6	-1.8	1.1	7.7	7.4	0.9	4.6	4.7	5.0
Retail Trade Volume	-2.1	0.2	-2.2	1.8	5.2	5.8	4.8	5.3	6.3	5.5
EMPLOYMENT, EARNINGS										
Number of Employed	-0.4	0.7	1.8	1.7	5.3	2.7	3.4	1.6	0.8	0.5
Unemployment Rate	11.2	11.0	11.0	10.2	7.7	6.8	5.1	4.2	3.7	3.4
Gross Nominal Wages	1.3	5.2	4.7	3.4	3.0	4.3	6.1	12.9	11.3	8.5
Net Real Wages[a]	1.8	2.4	-3.4	3.1	3.2	4.4	7.4	10.3	8.2	4.8
PRICES, EXCHANGE RATES										
Consumer Price Index	4.9	3.9	5.7	1.7	-0.2	-0.1	0.4	2.4	3.0	3.5
EUR/HUF Exchange Rate (annual average)	275	279	289	297	309	310	311	309	319	319
EUR/ USD Exchange Rate (annual average)	1.32	1.39	1.28	1.33	1.33	1.11	1.11	1.13	1.19	1.18
Short-term Interest Rates (3M), eop	5.76	7.55	5.33	2.86	1.43	0.80	0.06	-0.01	0.30	0.50
Long-term Interest Rates (10Y), eop	7.95	9.75	6.11	5.61	3.60	3.33	3.16	2.02	3.50	4.00
BALANCE OF PAYMENTS										
Current and Capital Accounts, % of GDP	2.1	3.1	4.3	7.4	5.2	7.4	6.2	4.2	3.0	3.0
GOVERNMENT BUDGET										
General Government Balance, ESA-95, % of GDP	-4.5	-5.4	-2.4	-2.6	-2.6	-1.9	-1.6	-2.2	-2.8	-2.8
Gross Government Debt, % of GDP [b]	80.2	80.5	78.4	77.1	76.6	76.7	76.0	73.6	72.5	71.0

a The numbers do not take into account the effect of the family tax benefit.
b General government debt, including the balace sheet of Eximbank
* Kopint-Tárki forecast
Source: CSO, NBH

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