

# FLASH REPORT

6 December 2017

## Q3 GDP was revised upward to 3.9% YoY, thanks to unexpectedly strong market services growth

- Quite unusually, Hungary's KSH revised upward the GDP data for the third quarter by a wide margin: the preliminary 3.6% figure was modified to 3.9% YoY (earlier data were left unchanged). It means significant acceleration from Q2's 3.3%. The statistical office ascribes the surprisingly significant revision to the performance of market services. The seasonally and calendar adjusted figure is 4.1% YoY, the annualized QoQ change accelerated to 3.8%. (Chart 1) We note that stronger-than-expected economic performance was a widespread phenomenon across Central and Eastern Europe in 2017Q3.
- Similarly to 2017Q2, agriculture and the government sector weighed on GDP growth. The former fell by -11.3% YoY and the latter (i.e. government services on the production side of GDP) posted -1.5% yearly drop. (Chart 3) Meanwhile, non-farm GDP growth accelerated from 4.2% to 4.9% YoY, while the growth of non-farm private GDP, maybe the best indicator of underlying strength of the business cycle, has jumped from 5.2% to 6.4% YoY, its highest reading since 2002Q3 (in SA terms). (Chart 2)
- Indeed, market services made large contribution to GDP growth as their value added grew by 5.8% YoY, the highest reading since 2006Q4. (Chart 8) Apart from financial intermediation, all subsectors posted accelerating growth, e.g. information and communication value added expanded by 8.2%, wholesale and retail trade, accommodation and restaurants services value added by 6.8%, while the professional, scientific, engineering and administrative activities' value added by 8.1% (all YoY). However, the latter may have benefited from a positive one-off effect of the FINA world aquatic championship.
- The incoming data are in line with our big picture. The business cycle has reached maturity stage: growth may remain near 4% in 2017-18, supported by several factors. In Q3, household consumption expenditure grew by 4.7% YoY (our forecast for 2017 is 4.8%), while household final consumption was supported by much-stronger-than-expected transfers from both government and non-profit institutions. Social transfers in kind from the government posted 3.4% gain YoY after declining by -2.4% YoY a quarter ago, and transfers in kind from non-profit institutions serving households expanded by an enormous 14.9% YoY (over 60% in annualized QoQ terms, or roughly HUF 15 bn QoQ).
- As a result, the surprisingly strong GDP dynamics in Q3 is related to the final consumption of households, which gained 4.8%, after expanding by 3.5% in Q2, YoY. We note that the Q3 performance may contain one-off effects, yet underlying growth may have further to run as [income growth is spectacular](#) and loan flow is still modest in Hungary, compared to other countries in the CEE region. (Chart 7)
- Gross capital formation was revised significantly. Now the Q1-Q3 YoY dynamics are 21.6%, 26.1% and 20.3%, respectively. The Q3 deceleration is in line with the statistic office's investment data (shows 18.3% YoY dynamics after 26.8% yearly gain in Q2) and with our expectation, which is 21.5% yearly growth for 2017 as a whole. Both construction and machinery investment expanded steadily while private investment's contribution remained robust. Based on [short-term statistics](#), we do not see considerable downward risk for the coming quarters. (Charts 5 & 6)
- As domestic demand remained robust, net exports' contribution to growth was negative again, for the third consecutive quarter. This negative effect intensified (net exports subtracted 3.2 pp from the overall GDP growth), proving our long-held view of growing domestic demand that eats into external surplus. (Chart 4)
- As Hungary's GDP growth was 3.8% over the first three quarters of 2017, we revise upward our forecast for 2017 from 3.7% to 3.8%. In all, the consumption expenditure of households and capital formation are likely to be in line with our previous forecast while the growth contribution of the government may be slightly stronger. On the other hand, net export is expected to be a heavier drag.

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- In 2018, Hungary's GDP expansion is likely to be close to 4.0% YoY. However, the underlying momentum may deteriorate slightly (Chart 9 & 10). We forecast decelerating growth in capital formation activity but stronger household consumption growth, and less negative contribution from net export than in 2017. [The room for manoeuvre available to the government](#) before the 2018 parliamentary election means upside risk. The main downside risk remains that even the robust investment activity (both tradable and non-tradable sectors are investing massively right now) might not be able to offset the eventual negative growth effect of the lack of available labour force.

## Main macro forecasts

Key economic indicators					OTP		Focus Economics 2017.12.		EC Autumn 2017	
	2013	2014	2015	2016	2017F	2018F	2017F	2018F	2017F	2018F
Nominal GDP (at current prices, bn HUF)	30 127	32 400	33 999	35 005	<b>37 520</b>	<b>39 988</b>	<b>37 599</b>	<b>39 914</b>		
Real GDP change	2,1%	4,2%	3,4%	2,2%	<b>3,8%</b>	<b>3,7%</b>	<b>3,8%</b>	<b>3,4%</b>	<b>3,7%</b>	<b>3,6%</b>
Household final consumption	0,5%	2,1%	3,1%	4,2%	<b>3,4%</b>	<b>4,0%</b>	<b>4,0%</b>	<b>3,8%</b>	<b>4,6%</b>	<b>3,8%</b>
Household consumption expenditure	0,2%	2,5%	3,4%	4,9%	<b>4,4%</b>	<b>4,6%</b>				
Collective consumption	6,5%	9,2%	0,6%	0,1%	<b>-1,9%</b>	<b>1,1%</b>	<b>2,2%</b>	<b>2,3%</b>		
Gross fixed capital formation	9,8%	9,9%	1,9%	-15,5%	<b>21,5%</b>	<b>7,4%</b>	<b>16,8%</b>	<b>7,3%</b>	<b>15,2%</b>	<b>10,9%</b>
Exports	4,2%	9,8%	7,7%	5,8%	<b>6,4%</b>	<b>6,4%</b>			<b>7,7%</b>	<b>7,1%</b>
Imports	4,5%	10,9%	6,1%	5,7%	<b>8,1%</b>	<b>6,3%</b>			<b>9,6%</b>	<b>8,4%</b>
General government balance (ESA'10 based, HUF bn)	-793	-895	-684	-667	<b>-514</b>	<b>-702</b>				
in percent of GDP	-2,6%	-2,8%	-2,0%	-1,9%	<b>-1,4%</b>	<b>-1,8%</b>	<b>-2,4%</b>	<b>-2,5%</b>	<b>-2,1%</b>	<b>-2,6%</b>
General government debt (in percent of GDP)	76,8%	76,2%	75,3%	74,1%	<b>72,9%</b>	<b>70,9%</b>	<b>72,7%</b>	<b>71,2%</b>	<b>72,6%</b>	<b>71,5%</b>
Current account (EUR bn)*	3,9	1,6	3,8	7,1	<b>5,2</b>	<b>5,2</b>	<b>4,6</b>	<b>4,0</b>		
in percent of GDP	3,8%	1,5%	3,5%	6,3%	<b>4,3%</b>	<b>4,0%</b>	<b>3,8%</b>	<b>3,1%</b>	<b>4,3%</b>	<b>3,3%</b>
Gross nominal wages**	3,8%	3,6%	4,3%	6,5%	<b>11,9%</b>	<b>8,1%</b>				
Gross real wages	2,0%	3,8%	4,4%	6,1%	<b>9,4%</b>	<b>6,3%</b>				
Gross disposable income***	2,7%	4,2%	4,4%	2,7%	<b>7,3%</b>	<b>5,9%</b>				
Gross real disposable income	1,0%	4,4%	4,4%	2,3%	<b>4,9%</b>	<b>4,1%</b>				
Employment (annual change)	1,7%	5,3%	2,7%	3,4%	<b>1,7%</b>	<b>0,6%</b>			<b>1,1%</b>	<b>0,6%</b>
Employment domestic concept w/o public workers	0,5%	3,3%	1,5%	3,3%	<b>3,0%</b>	<b>1,3%</b>				
Unemployment rate (annual average)	10,2%	7,7%	6,8%	5,1%	<b>4,2%</b>	<b>4,2%</b>	<b>4,3%</b>	<b>4,1%</b>	<b>4,2%</b>	<b>4,0%</b>
Inflation (annual average)	1,7%	-0,2%	-0,1%	0,4%	<b>2,3%</b>	<b>1,7%</b>	<b>2,4%</b>	<b>2,7%</b>	<b>2,3%</b>	<b>2,6%</b>
Base rate (end of year)	3,00%	2,10%	1,35%	0,90%	<b>0,90%</b>	<b>0,90%</b>	<b>0,90%</b>	<b>1,00%</b>		
1Y Treasury Bill (average)	4,11%	2,28%	1,17%	0,77%	<b>0,09%</b>	<b>0,01%</b>				
Real interest rate (average, ex post)	2,3%	2,5%	1,2%	0,4%	<b>-2,2%</b>	<b>-1,7%</b>				
EUR/HUF exchange rate (average)	297,0	308,6	309,9	311,5	<b>308,7</b>	<b>308,0</b>	<b>309,0</b>	<b>309,0</b>		
EUR/HUF exchange rate (end of year)	296,9	314,9	313,1	311,0	<b>308,0</b>	<b>308,0</b>	<b>310,0</b>	<b>308,0</b>		

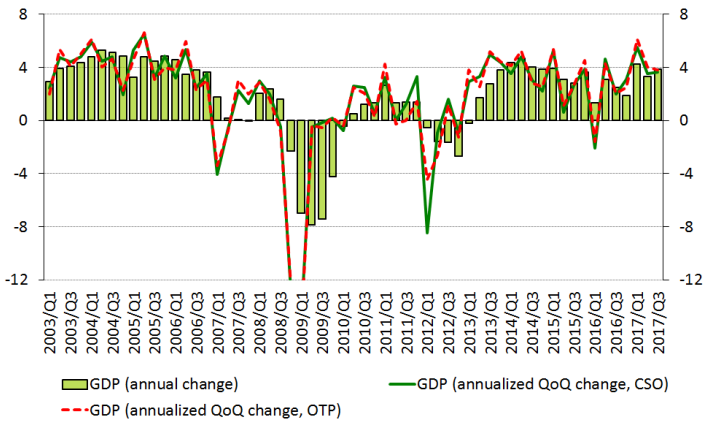
Sources: CSO, MNB, OTP Bank

\*: Official data of balance of payments (excluding net errors and omissions)

\*\*: Total wages including accrual based salaries in governmental sector. In the case of private sector wages we calculated with whitening effect filtered wages and we adjusted the changeable seasonality of the bonus payments.

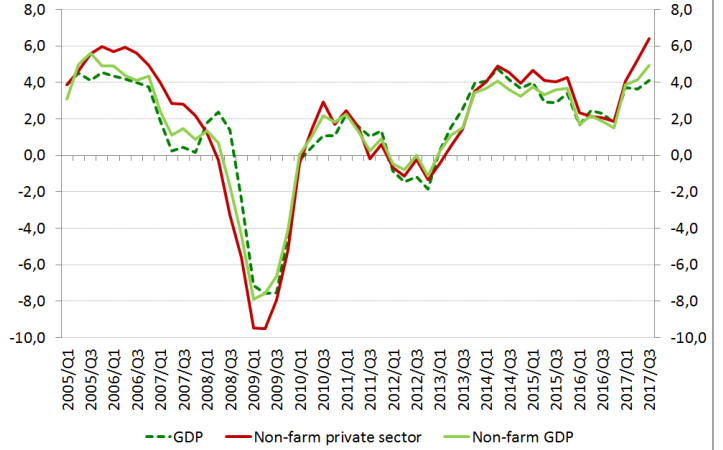
\*\*\*: Calculation based on financial accounts data

**Chart 1: Summary chart of GDP growth**  
(annual and annualized QoQ growth rate, %)



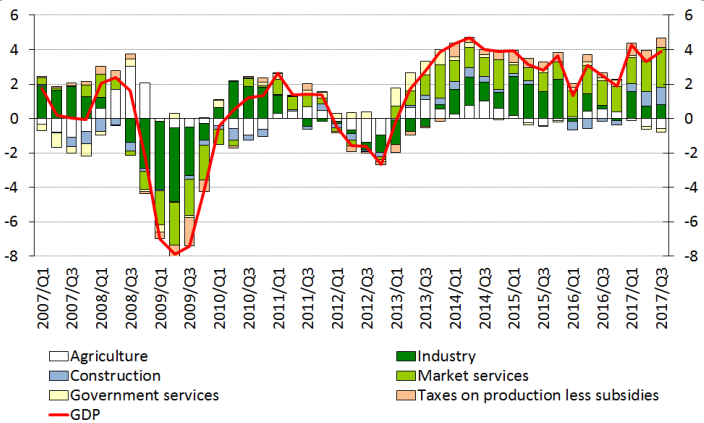
Sources: HCSO, OTP Research

**Chart 2: Different indicators of economic activity**  
(annual changes, %)



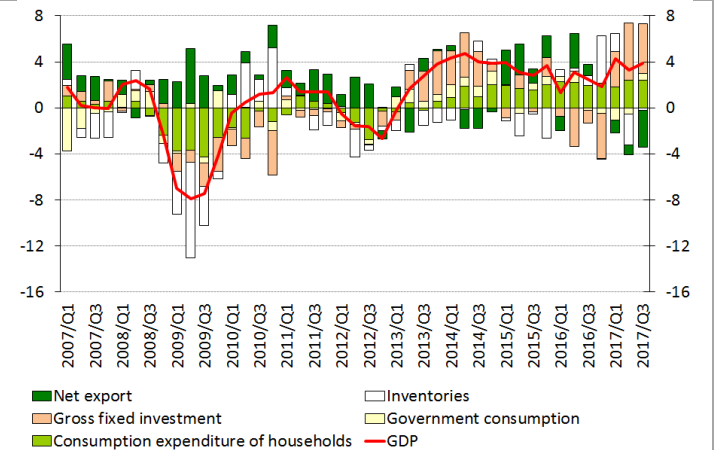
Sources: HCSO, OTP Research

**Chart 3: Decomposition of GDP growth by production-side items**  
(quarterly data, %)



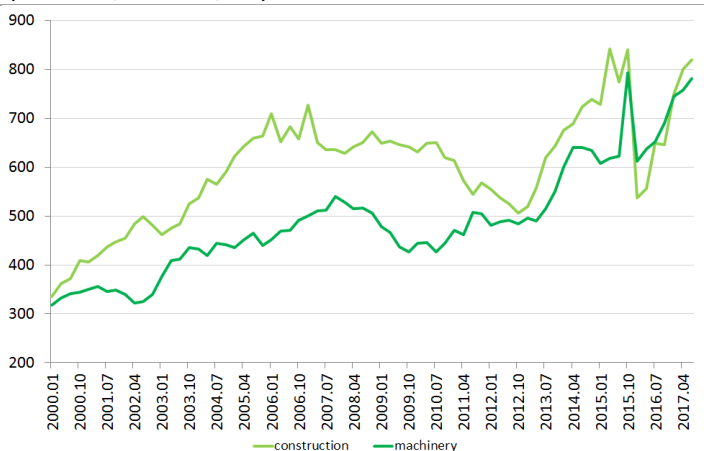
Sources: HCSO, OTP Research

**Chart 4: Decomposition of GDP growth by expenditure-side items**  
(quarterly data, %)



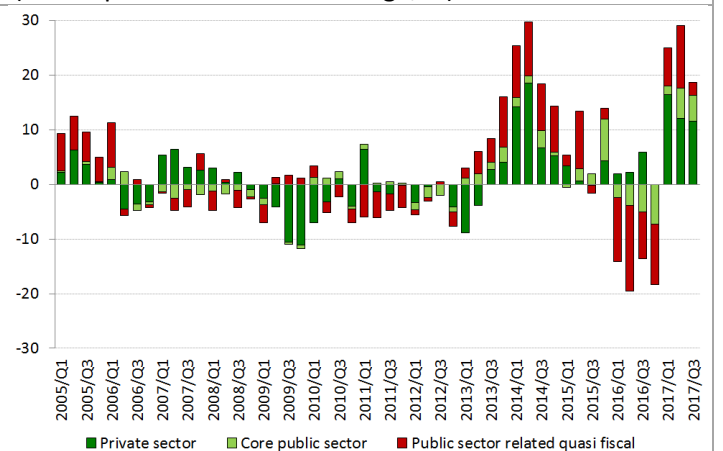
Sources: HCSO, OTP Research

**Chart 5: Investment by type**  
(nominal, bn HUF, SA)



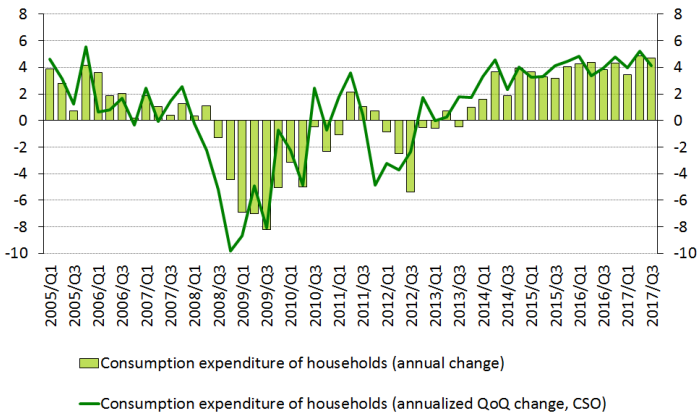
Sources: HCSO, OTP Research

**Chart 6: Investment activity by sectors**  
(decomposition of annual change, %)



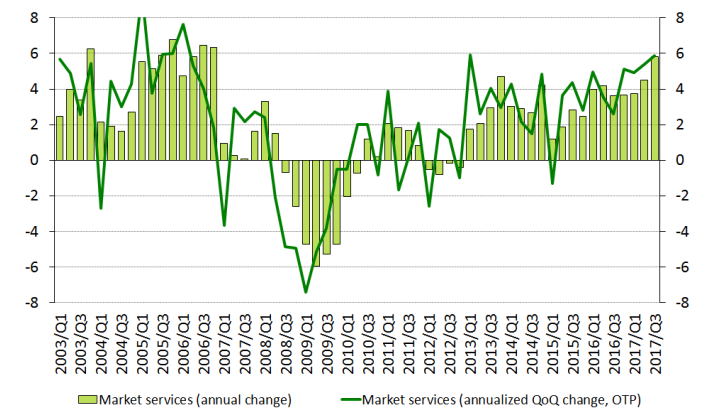
Sources: HCSO, OTP Research

**Chart 7: Households' consumption expenditure**  
(annual and annualized QoQ growth rate, %)



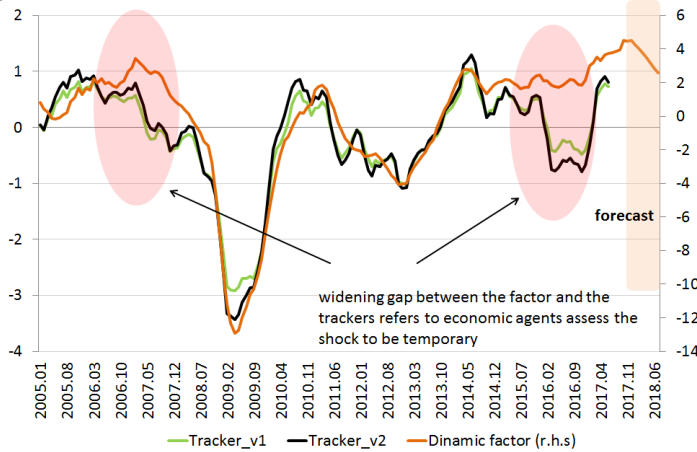
Sources: HCSO, OTP Research

**Chart 8: Market services**  
(change at constant prices, %, SA)



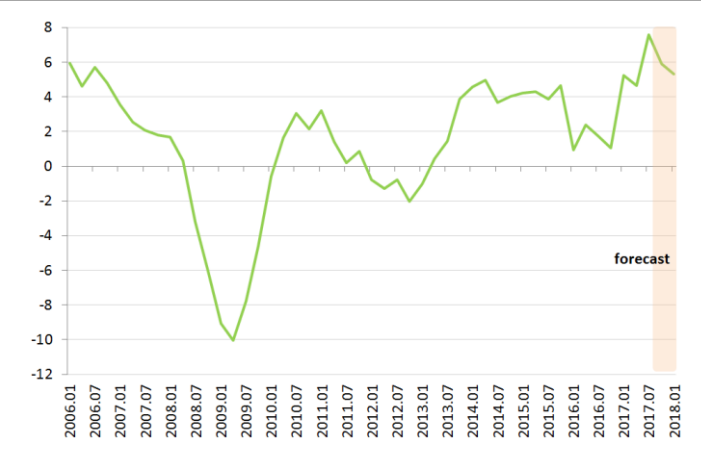
Sources: HCSO, OTP Research

**Chart 9: Our GDP trackers and our estimation for the dynamic factor**  
(monthly, normalized)



Sources: HCSO, OTP Research

**Chart 10: Forecast of non-farm private GDP**  
(change at constant prices, YoY, %, SA)



Sources: HCSO, OTP Research

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