

BUSINESS CYCLE UPDATE

14 February 2018

2017Q4 GDP overshoot the consensus and our in-house forecast as well; the economy ended the year encouragingly

- **Hungary's GDP, growing by 4.4% in 2017Q4 YoY NSA** (previous: 3.9%), **overshot market expectations** of 4.1% YoY (Reuters and portfolio.hu) and 4.3% YoY (Bloomberg). Our in-house forecast, made before the publication of very strong December construction production data, was 4.2% YoY. The main driver of growth was the contribution of market services as well as of construction production, Hungary's statistical office KSH indicated in its publication. The breakdown is set to be released on 6 March.
- The seasonally and working day adjusted index (4.8%) exceeds the NSA figure and represents the highest reading since 2005Q4. The seasonally and working day adjusted **QoQ growth rate also accelerated**, to 1.3% from 1.0% in Q3 and in Q2. The Q3 and Q2 QoQ figures were revised slightly upward.
- Hence, 2017 YoY NSA GDP growth was 4.0%, beating our most recent 3.8% forecast by a narrow margin. We were among the very first ones to [forecast](#) about 4% growth for 2017, since autumn 2016.
- **The big picture has not changed, all countries in the CEE region posted very strong expansion.** Poland's GDP expanded by 4.3%, Slovakia surged 3.6% (a slight acceleration), Bulgaria grew 3.6% while Romania showed a still stellar 7.0% performance after sky-rocketing 8.5% a quarter earlier. The market consensus is 5.3% for the Czech Republic (all figures are SA, YoY). **The CEE region shows very robust GDP growth rates (ranging between 3.5% and 7.0%), as the surprisingly fast expansion of the eurozone (2.7% YoY in 2017Q4) was coupled with strong household demand, private investment activity and reaccelerating EU fund inflow.**
- **In 2017Q4 Hungary posted the second strongest GDP expansion within the EU, while the year-end data underpin our forecast of 3.7% YoY growth for 2018.**
 - **Household demand indicators suggest that Hungary's growth remains robust, and may even accelerate.** Sentiment indicators have climbed higher; retail trade expansion has gained some impetus recently while accommodation services register rising domestic demand again. However, passenger vehicle registration is approaching its equilibrium level and loan flow shows just modest expansion.
 - **On the investment side, we see sky-rocketing orders stock of construction.** The effect of December 2016 government spending spree looks trifling compared to the one in December 2017: orders stock of construction grew by HUF 582 bn or by 44.2% MoM, and the seasonally adjusted index is even higher. To KSH statistical office attributes the jump to a few huge-amount contracts made by the government. Besides, private demand is also sizeable, emphasized by outstanding corporate loan flow. These point to very strong 2018 activity in construction, but capacity bottlenecks will increasingly weigh on future growth. Meanwhile, the real estate market improves further, although some signs of deceleration are visible, especially in Budapest.
 - **Regarding the external demand, the still accelerating growth of the eurozone, as reflected by all-time highs of sentiment indicators, provides strong demand, but capacity constraints seem to act against further expansion in the export-led production sector:** neither the production, nor the order stock or the export volume could maintain grow over the past few years. Meanwhile, strong domestic demand fuels imports and these led to EUR 1.5 bn reduction in trade balance surplus to EUR 8.2 bn in 2017 – after the two-year increase before from EUR 6.3 bn to EUR 9.7 bn.

On balance, **the current data reaffirm our view that the recovery is in maturity phase, and it is broad-based across the region, including Hungary.** This is unlikely to change in the near future.

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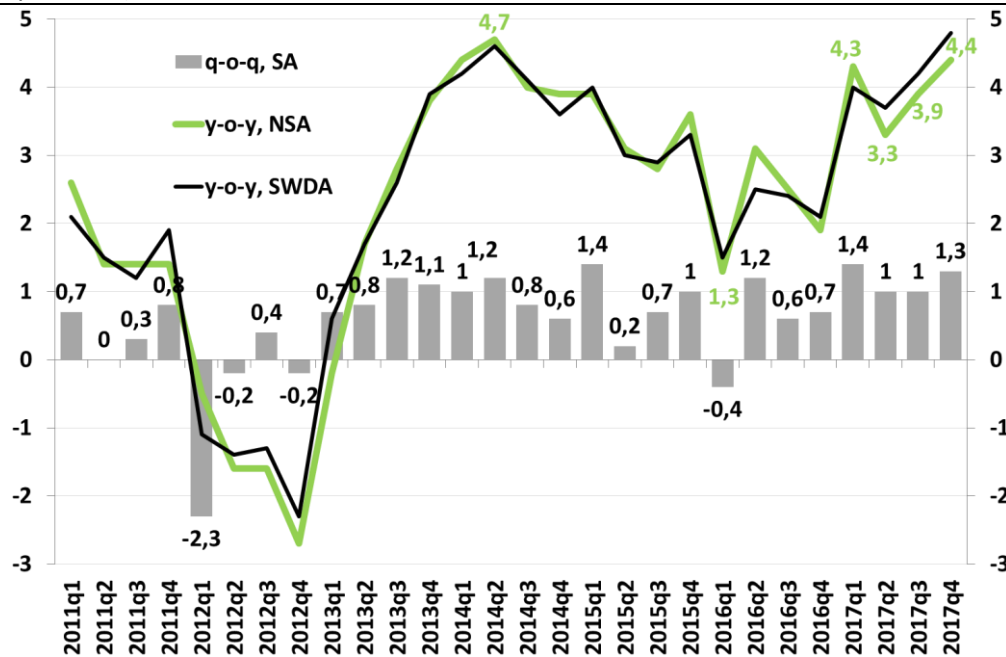
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GDP dynamics
 (quarterly data, %)


Sources: KSH, OTP Research

Summary table of main macroeconomic indicators

Key economic indicators					OTP		Focus Economics 2018.02.		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	37 520	39 988	37 621	39 951		
Real GDP change	2,1%	4,2%	3,4%	2,2%	4,0%	3,7%	3,9%	3,6%	3,7%	3,6%
Household final consumption	0,5%	2,1%	3,1%	4,2%	3,4%	4,0%	4,1%	4,0%	4,6%	3,8%
Household consumption expenditure	0,2%	2,5%	3,4%	4,9%	4,4%	4,6%				
Collective consumption	6,5%	9,2%	0,6%	0,1%	-1,9%	1,1%	-0,5%	1,4%		
Gross fixed capital formation	9,8%	9,9%	1,9%	-15,5%	21,5%	7,4%	19,2%	8,8%	15,2%	10,9%
Exports	4,2%	9,8%	7,7%	5,8%	6,4%	6,4%			7,7%	7,1%
Imports	4,5%	10,9%	6,1%	5,7%	8,1%	6,3%			9,6%	8,4%
General government balance (ESA'10 based, HUF bn)	-793	-895	-684	-667	-704	-759				
in percent of GDP	-2,6%	-2,8%	-2,0%	-1,9%	-1,9%	-1,9%	-2,2%	-2,4%	-2,1%	-2,6%
General government debt (in percent of GDP)*	76,3%	75,6%	75,5%	74,7%	72,1%	71,3%	72,6%	71,0%	72,6%	71,5%
Current account (EUR bn)**	3,9	1,6	3,8	7,0	4,6	4,1	4,4	3,9		
in percent of GDP	3,8%	1,5%	3,5%	6,2%	3,8%	3,1%	3,6%	3,0%	4,3%	3,3%
Gross nominal wages***	3,8%	3,6%	4,3%	6,5%	11,9%	8,1%				
Gross real wages	2,0%	3,8%	4,4%	6,1%	9,3%	6,0%				
Gross disposable income****	2,7%	4,2%	4,4%	2,7%	7,3%	5,9%				
Gross real disposable income	1,0%	4,4%	4,4%	2,3%	4,8%	3,8%				
Employment (annual change)	1,7%	5,3%	2,7%	3,4%	1,7%	0,6%			1,1%	0,6%
Employment domestic concept w/o public workers	0,5%	3,3%	1,5%	3,3%	3,0%	1,3%				
Unemployment rate (annual average)	10,2%	7,7%	6,8%	5,1%	4,2%	4,2%	4,2%	4,0%	4,2%	4,0%
Inflation (annual average)	1,7%	-0,2%	-0,1%	0,4%	2,4%	2,0%	2,3%	2,6%	2,3%	2,6%
Base rate (end of year)	3,00%	2,10%	1,35%	0,90%	0,90%	0,90%	0,90%	0,93%		
1Y Treasury Bill (average)	4,11%	2,28%	1,17%	0,77%	0,09%	0,01%				
Real interest rate (average, ex post)	2,3%	2,5%	1,2%	0,4%	-2,3%	-1,9%				
EUR/HUF exchange rate (average)	297,0	308,6	309,9	311,5	309,3	308,3	309,0	310,0		
EUR/HUF exchange rate (end of year)	296,9	314,9	313,1	311,0	310,1	308,0	311,0	308,0		

Sources: CSO, MNB, OTP Bank

*: w/o Eximbank, incl. Eximbank's debt the estimated figure for 2017 is 74.5% of GDP

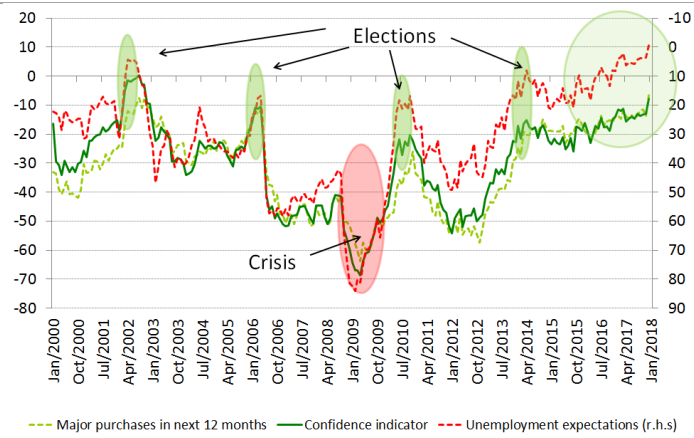
**: Official data of balance of payments (excluding net errors and omissions)

***: 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

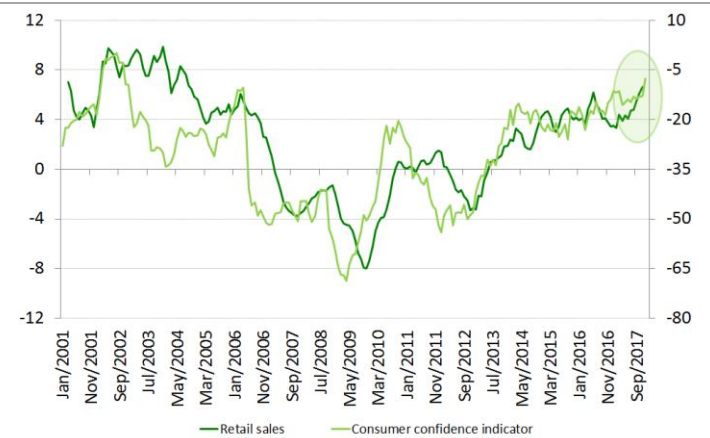
Indicators of domestic demand – Consumption

Chart 1: Consumer confidence
(monthly data, balance index)



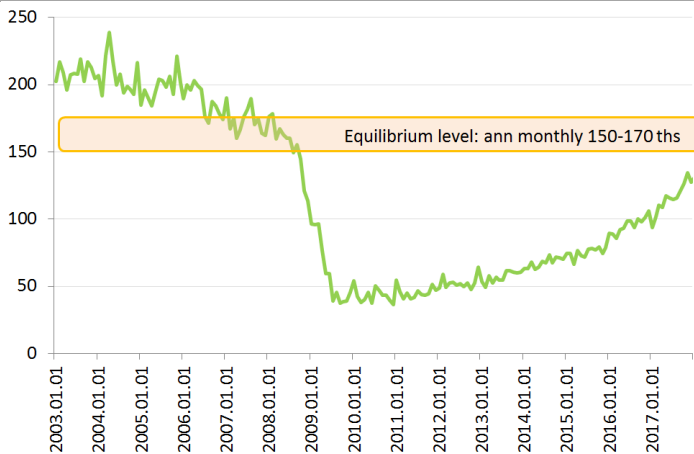
Sources: Eurostat, OTP Research

Chart 2: Consumer confidence and retail trade
(monthly data, SA, 3M MA of annual changes, % and balance indicator)



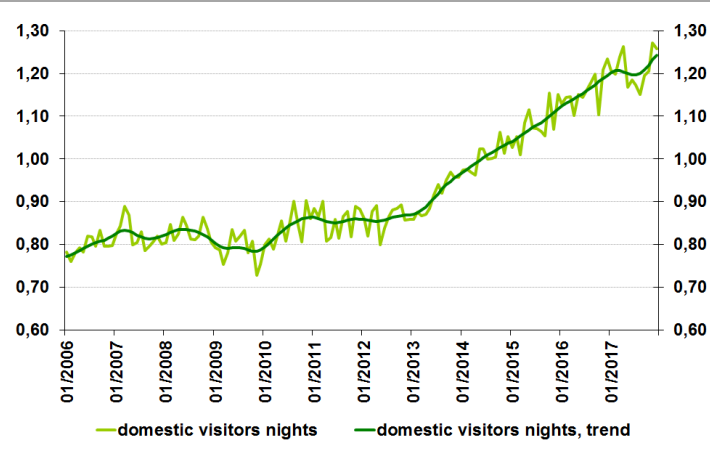
Sources: Eurostat, KSH, OTP Research

Chart 3: New passenger vehicle registrations
(ann monthly, SA)



Sources: ACEA, OTP Research

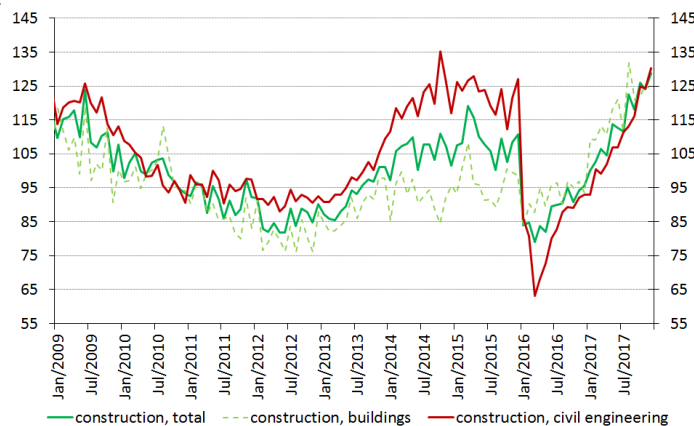
Chart 4: Holiday nights, spent by domestic visitors
(monthly, SA, mn)



Sources: KSH, OTP Research

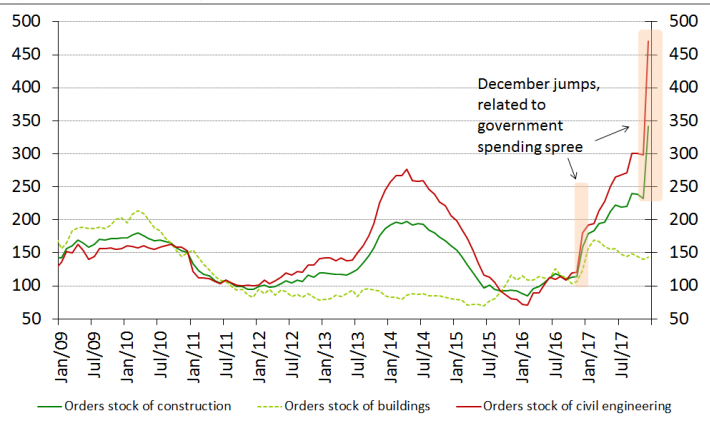
Indicators of domestic demand – Investments

Chart 1: Construction production
(SA, 2010 = 100)



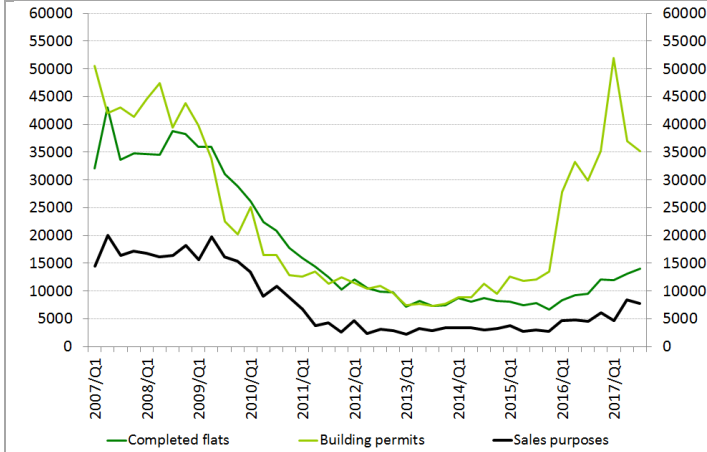
Sources: KSH, OTP Research

Chart 2: Orders stock of construction
(SA, 2000 = 100)



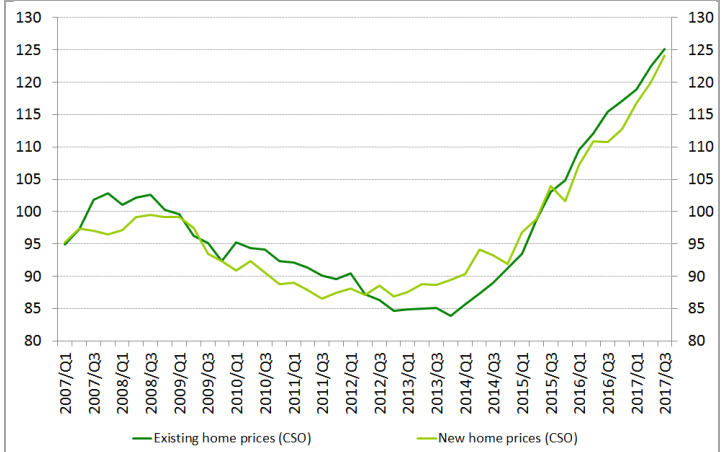
Sources: KSH, OTP Research

Chart 3: Building permits and completed dwellings
(ann quarterly data, SA)



Sources: KSH, OTP Research

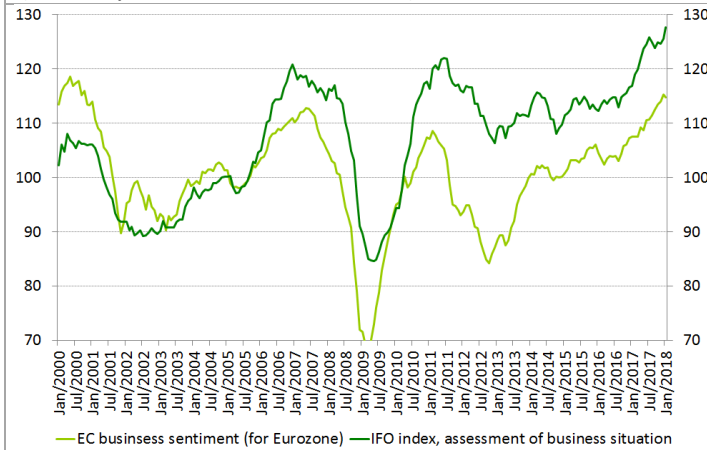
Chart 4: Home prices
(previous year = 100, NSA)



Sources: KSH, OTP Research

Indicators of external demand

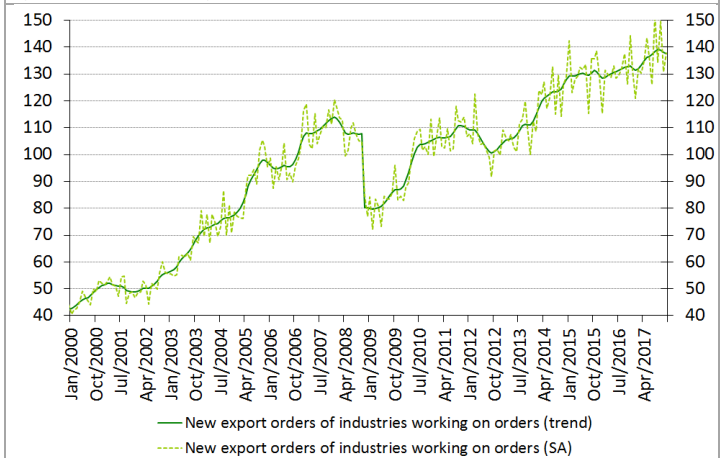
Chart 1: IFO* and EC sentiment indicators
(monthly data, balance indicator)



Sources: Reuters, Eurostat, OTP Research

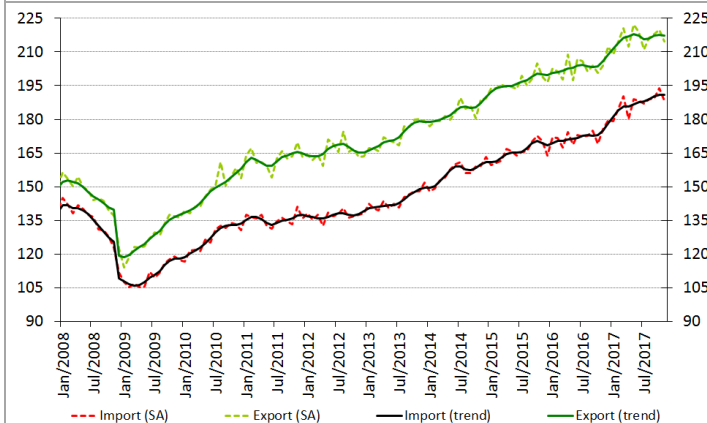
*: current situation sub-index

Chart 2: New export orders
(SA, 2010 = 100)



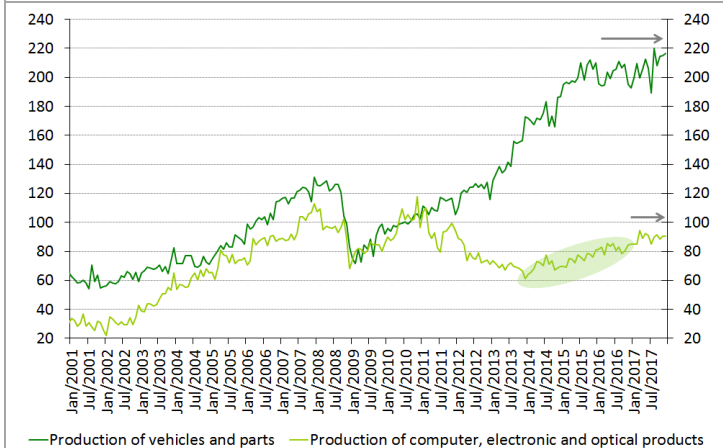
Sources: KSH, OTP Research

Chart 3: Export & import of goods
(monthly data, SWDA, 2000 monthly average = 100)



Sources: KSH, OTP Research

Chart 4: Production of vehicles as well as computer, electronic and optical products
(SA, 2010 = 100)



Sources: KSH, OTP Research

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