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## THE CONSUMER IN CRISIS MANAGEMENT MODE

### Válságkezelő üzemmódba kapcsolt fogyasztó

TIMÁR István Zorán

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#### Abstract

*The credit crisis broken out in 2008 changed persistently the financial branch as well as the image of the economy of the world on the basis of this, it can be claimed that its influence has still had significant impact on our everyday life. Due to the fact that the recession has indirect or direct effect on all branches, ultimately the credit crisis has become a severe recession, which has affected sensitively almost all members of the economy. By now, however, something has changed sensibly. According to the statistics of the KSH, the expansion of the GDP of the fourth quarter of the year 2014 of our country was better than expected: it has increased 3.4%. This result means 3.6% GDP growth in relation to a whole year. Concerning consumption, increase can be realized. The real consumption of the households has gone up with 2% comparing the same period of the preceding year.*

*The most consumption centred items of the economy, the households transformed their consumption habits as the result of the*

*protracted crisis. The crisis management behaviours of the population is henceforward characterised by keeping back the expenses besides the bare necessities, which calls new and creative consumption techniques into being. Moreover, frequent saving methods are the holding back of the overhead consumption as well as the giving up the consumer goods temporarily. Among the real consumption components, the consumption expense representing the highest rate increased by 1.9% in 2014. It would appear that the crucial period of the crisis has already been behind us although most of the consumers cannot sit back since the recovery is not so obvious. It is enough if we take the instructions aiming at the adjustments of the budget into consideration, which have indirect impacts on the consumer-being.*

*This study is making an attempt at showing the route of the Hungarian consumers from the instant consumer desire to rational consumption habit forced to sacrifice.*

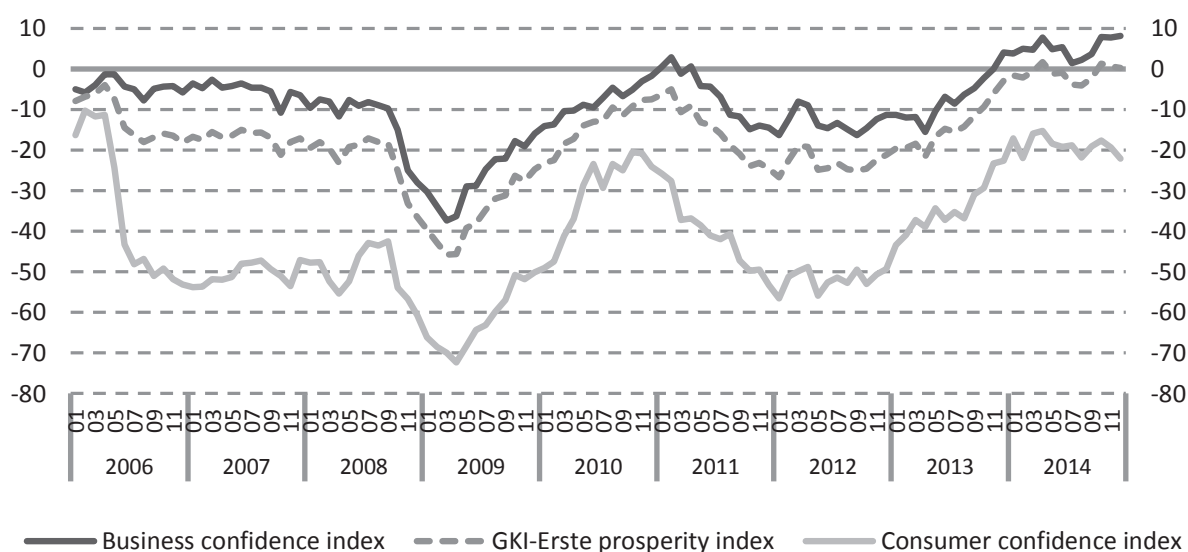
**Kulcsszavak:** háztartás, fogyasztás, válság  
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#### INTRODUCTION

It is out of the question that the year of 2008 is remained to be a special year in people's memory which become unforgettable due to a whole series of crisis: oil crisis, financial crisis as well as economic crisis (Cetelem, 2009). The subprime crisis originated from the United

States of America expended to the entire financial system and finally, it defiled the real-economy as well (Lentner, 2010). It became obvious that it was not about a crisis with everyday importance and expansion. In this difficult economic situation, the citizens had no options but to adapt to the new situation. Their steady consumer desire remained after the outbreak of the crisis (Cetelem, 2010). The spectacular collapse of the estate market caused additional damage appearing in the fields of employment and income. As a result of this, the consumer confidence touched historical bottom by 2009, which had never been seen before (Timár, 2014). Based on the study of GKI Gazdaságkutató Zrt., the business and the consumer expectations differ significantly in relation to multi-year perspective. While business expectations have got into a steadily hopeful mood after several years of depression, consumer confidence index, which has shown continuous and steady development from the year of 2012, represent a slight stop by 2014 (Figure 1).



Source: GKI, edited by the writer

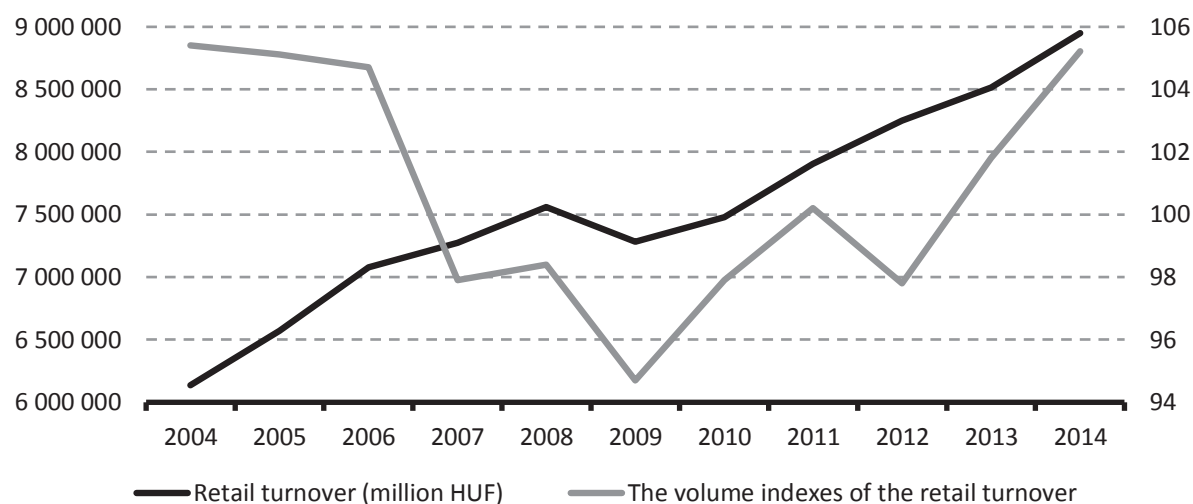
Figure 1

The prosperity index and its components of the ERSTE by GKI, 2006-2014

An answer can be for this the decennial reduced to the bottom inflation in Hungary, which developed as a result of the overhead reductions based on governmental action. The deflation is said to be dangerous since the prices can be lessened as a consequence of this, people tend to wait and postpone their shopping in the hope of future lower price, which leads to decreasing demand. This is fundamentally not beneficial, neither from the production nor from the consumption side. The reason for no necessary immediate intervention is that the core inflation is 0.7%, which at present gives no occasion for panic. The consumer confidence indicator was on this level lastly in the fourth quarter of 2010, which henceforward lagged behind the peak of the beginning of 2006. As a consequence of the impact of the continuing increase of employment and real wages, we can expect the rise of the consumption. This favourable process is also supported by the settlement of currency based loans, as a result of which the foreign exchange exposure will disappear from the balance sheet of households by this means the spendable income of households will expand effectively. According to the first estimation of the Central Bank of Hungary, following the settling of the rate spread as well as the unfair contract modifications, the stock of the loans based on currency will decline with approximately 600 billion HUF, which is basically about 500 billion HUF annually due to the truly re-payers. In accordance with calculations, exchanging to HUF will moderate

instalments by 20-25%, which means 100-125 billion released amount of money in the budgets of the households, which is going to improve the situation of households significantly. The increase of the turnover is supported by the very steep fall of fuel prices and overheads. By now, it can be said that in the 28 Members of the EU, Hungarians pay the second lowest price for domestic natural gas and electricity. From the beginning of the overhead reduction – 1st January 2013 – the inhabitants have been able to save altogether 334 billion HUF. The transport operators and the car driver are able to save on the low petrol price almost as much as the overhead reduction annually. The price of petrol and gas oil was on the peak in 2012 when the price of 1l fuel was around 451 and 445 HUF on an average. From September 2013, when the average price of the gas oil was 442 HUF and the petrol's cost 427 HUF, the fuel price has been declining continuously. On the 18th February 2015, the average price of the gas oil was between 367 and 368 HUF while the average price of the petrol in 1995 was around 347 and 348 HUF/litre. An average car driver can save 100 000 HUF annually on low petrol prices, which means freeing up 200 billion HUF yearly in case of drivers and transport operators. The fact that it is possible to refuel for lower prices, it can boom the economy, can decrease the expenses of enterprises by this means the real wages can increase, which results in the increase of the purchasing power of the inhabitants. In parallel with this, further consumption expansion can be expected. Obviously, the impact of the two factors (the management of currency credits, the decline of the petrol prices) is not distributed consistently in the society since there are some people, who do not use their cars instead they use only their bicycle, public transport or go on foot for this reason in their case this item is not considerable. In addition, this surplus „receipt” cannot be emerged by those people who do not possess any currency credit. Therefore, it will be presented in a significant and well-limited segment of the society, which means about 400 000 families by now (in October 2014, 462 000 retail foreign currency mortgage contracts were registered by credit banks). It is a good question where the money raising by these families will appear, or it will appear at any stages of consumption at all? Furthermore, how much of it will be spent on consumption and what extent will be placed in any form of savings? It deserves further examinations.

Within the business sphere (except the construction industry), the majority of branches, including automotive industry make preparations for further improvements in 2015 and not for stagnation or for things are getting worse. It is obvious that the entrepreneurship has also changed since more and more dare to realize their previously rested plans. However, it is also a fact that unfavourable expectations are reported in all industrial branches. Regarding the present consumption diagnosis, it can be claimed that the previous bad clinical picture reflects the state recovering from diseases by now. After the crisis, we have still confidence in the future and we can take bigger shopping – it can be seen from the trade data (Figure 2) – however, we are still afraid of run into debt.



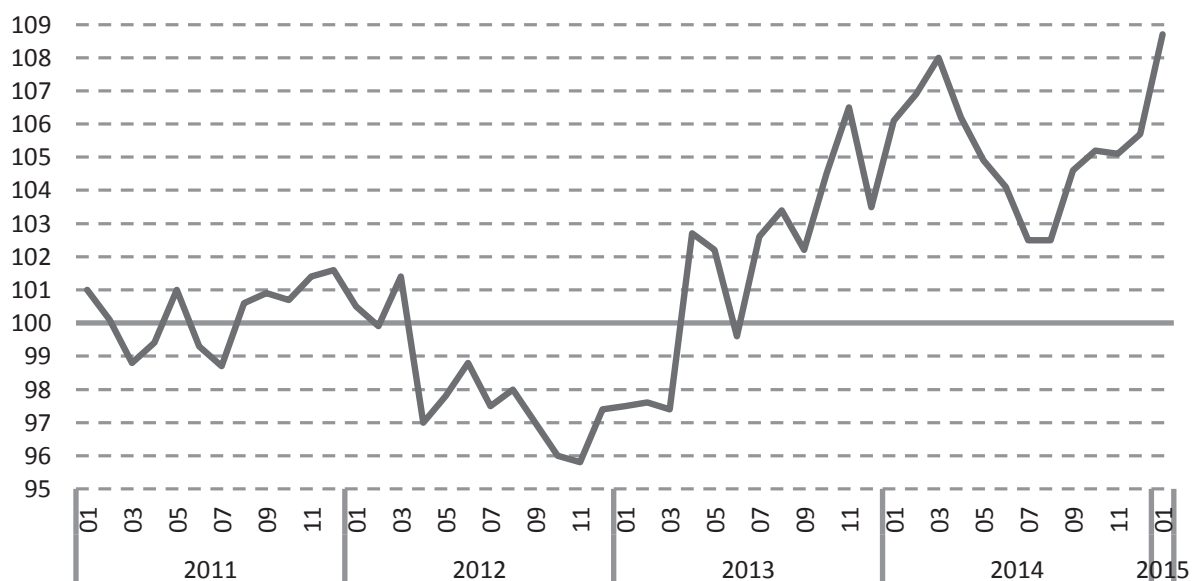
Source: KSH, edited by the writer

Note: volume index (the same period in the previous year=100)

Figure 2

The tendency of trade turnover, 2004-2014

If we have a look at the second flash estimate about the retail turnover of January 2015 (Figure 3), it can be seen that the year of 2011 was completely about stagnation which was followed by the bottom of November 2012. However, there have been some temporary regress the volume has risen month to month, which was influenced by the switching to online cash as well as the exact registration of tobacco turnover. After August 2014, unbroken without any recession improvement could be recognised, where the end-year turn meant a significant 3% increase from December to January. In January 2015 the retail turnover was increased by 8.7% in year comparison. More food (5.7%), consumer durables (12%) and fuel (9.4%) were consumed although the most significant expansion was indicated by online trade (40%). It can be claimed that thanks for the increasing real wages, the retail turnover is dynamically increasing. It seems to be a necessary statement since the retail turnover can be an excellent reflecting statistics about the fact what the citizen's consumption inclination is like and how their living standard is formed. Besides, the changes of household consumption mean a considerable factor in economic growth (Timár et al., 2013). Within the expenditure of household consumption, within the most considerable categories of expenses, the volume expanded in cases of catering, accommodation and home services as well as culture. People tend to spend more and more money in supermarkets, petrol stations and in electrical stores and everything refers to the fact that the favourable processes are going to continue in the next months. The road so far has been bumpy and painful, which I intend to present in the following.



Source: KSH, edited by the writer

Note: volume index (the same period in the previous year=100)

Figure 3

The tendency of retail turnover, 2011-2015

## MATERIALS AND METHODOLOGY

Constituting about two thirds of the gross domestic product, household consumption expenditures are a significant financial planning tool. Household consumption expenditures are also considered a primary indicator of economic-wellbeing. Therefore, it has an important place both in macroeconomic theory and empirical studies carried out in this field. The consumption function often referred to as the relationship between income and consumption has taken place in economic literature since Keynesian General Theory. Consumption theories analyzed by Keynes' Absolute Income Hypothesis, Friedman's Permanent Income Hypothesis, Modigliani, Ando and Brumberg's Life Cycle Income Hypothesis and Dusenberry's Relative Income Hypothesis (Tapsin et al., 2014).

Due to the fact that there is no such a method yet, with which we could determine punctually the general welfare besides the only financial situation, which has impact on the consumption intention. For this reason I am going to use the method accepted by the science, in other words, the consumption in constellation of GDP. It could be a proper way since consumption plays a significant role henceforward in the increase not only due to its emphasis within the GDP but also its dynamism. It is not a characteristic of investments which usually go poorly.

By time series analyses, the commonly applied tool of international comparison is the GDP per capita due to its close interaction with the living standard (Tóth – Sziget, 2013). It is generally known that if we would like to compare the real level of the GDP per capita of a country with other countries, the official rate of exchange should not be applied however the purchasing-power parity of the GDP must be used as exchanging key. As a result of failing to do this, the countries with high price level would be overestimated in contrary to the countries with low price level since the currencies of poor countries are usually underestimated in the market due to their weak efficiency, which would lead to the significant deformation of examinations. Comparing the performance of Bulgaria with the average of the EU28, it is obvious that the nominal distance is significant, which derives from two basic impacts. On the one hand, the price level of Bulgaria is lower on the other hand the GDP per capita of



Bulgaria is lower than in the field of EU28. The separation of these two factors can be accomplished by the purchasing power parity<sup>4</sup>, which shows how much item of the currency of a given country possesses with the same purchasing power like the item of the reference currency from the perspective of particular goods and services (in this case: GDP). The reference currency can be the money of a country (the OECD applies dollar as a comparison point) although for this reason any currency is suitable: the Eurostat introduced the PPS (Purchasing Power Standard) as a unit of measurement, which is defined as the purchasing power of 1 PPS equals with 1 Euro on the whole level of the EU. In other words: the price-level of the 28 countries of the EU in PPS and in Euro is the same (Oblath, 2005). Several derived indicators – such as the periphery index – also use the GDP based on the purchasing power per one capita (Borzán, 2004). The subjects of the study are mainly the gross domestic product (GDP) per capita, the real personal consumption per capita, and the examination of the price-level indexes of each country. On a per capita basis, it is a better measure of material well-being than either GDP or the household final consumption expenditure, when material well-being is defined in terms of the goods and services consumed by households to satisfy their individual needs. Such goods and services are referred to as individual goods and services, and the expenditure on individual goods and services are referred to as the individual consumption expenditure (Worldbank).

While the GDP per capita means in the first place the indicator of the economic performance, the indicator of consumption is more appropriate to describe the welfare of households. (Eurostat). In the national bills the final consumption expenditure of the households means the whole purchased and paid goods and services. The real individual consumption includes the goods and services consumed by the individual independently from the fact that these assets are purchased and paid by the households, the governments, or non-profit organisations. It is a popular indicator in the quantity international comparison since the measurement is not influenced by the fact that certain services - such as the health care and the education – are consumed by the households. For instance, in case the dental treatment is paid by the households in one country while in another one it is financed by the government, the data of final consumption expenditure of the households can be used excellently in international comparison. (Timár, 2014)

## RESULTS

The spread of the GDP per capita is said to be outstanding among the EU countries owing to the fact that considerable differences characterize the performance of certain countries (Table 1). Luxembourg has the highest index among the 28 countries. This performance means more than two and a half higher than the European average in all years. In case, we compare its value with the poorest member, Bulgaria, the difference is sextuple calculating based on the average of years. The particular situation and the outstanding performance of Luxembourg can be explained by the contribution to the GDP of the high number of foreign citizens working in the country and by the fact that these people are not considered to be local citizens. The advance of Luxembourg can due to the so called „tax heaven” status thanks for not least Jean-Claude Junker’s activity. Holland is on the second place with 31% above the average of the EU although our Austrian neighbour performed also well with its fourth position. Concerning the examined indicator, Hungary is placed in the last third. Its performance falls short of the results of the member country with 35% on average. It is an appalling data and it shows well the difference between the two countries that the performance of Austria is almost twice of this. Taking the performance of Hungary into

<sup>4</sup> Purchasing power parity means in the domestic price level and the nominal exchange rate, expressed in domestic currency price of foreign standards quotient. If it is less than 1, the national currency is undervalued, if more than 1, then overvalued. The calculation of the purchasing power parity-based real exchange is done by dividing the nominal exchange rate in purchasing power parity index.

account concerning the Visegrád Group, it can be determined that Hungary could not hold their third place since the performance of Poland continuously improved from 2007 and achieved the Hungarians by 2012. Slovakia, where altogether 5.4 million people live, is able to reach higher achievements last years. Among the countries of the Visegrád Group, the performance of the Czech Republic reaching the highest level should be claimed to be convincing and stable.

Table 1  
The volume index per capita, 2008-2013 (EU28=100)

|    | Gross domestic product |      |      |      |      |      | Actual individual consumption |      |      |      |      |      | Price level indices for AIC |      |      |      |      |      |
|----|------------------------|------|------|------|------|------|-------------------------------|------|------|------|------|------|-----------------------------|------|------|------|------|------|
|    | 2008                   | 2009 | 2010 | 2011 | 2012 | 2013 | 2008                          | 2009 | 2010 | 2011 | 2012 | 2013 | 2008                        | 2009 | 2010 | 2011 | 2012 | 2013 |
| BG | 43                     | 44   | 43   | 44   | 45   | 45   | 45                            | 43   | 44   | 47   | 50   | 49   | 44                          | 45   | 44   | 45   | 44   | 44   |
| CZ | 82                     | 83   | 81   | 83   | 82   | 82   | 69                            | 72   | 71   | 73   | 73   | 74   | 72                          | 68   | 69   | 69   | 67   | 65   |
| DE | 116                    | 115  | 119  | 122  | 123  | 122  | 113                           | 114  | 118  | 121  | 122  | 122  | 103                         | 106  | 102  | 102  | 100  | 102  |
| EL | 93                     | 94   | 87   | 77   | 74   | 73   | 105                           | 106  | 100  | 89   | 84   | 83   | 90                          | 93   | 92   | 92   | 89   | 86   |
| ES | 102                    | 101  | 98   | 95   | 94   | 94   | 97                            | 95   | 93   | 91   | 90   | 90   | 95                          | 97   | 97   | 97   | 94   | 93   |
| IT | 106                    | 105  | 104  | 103  | 101  | 99   | 106                           | 105  | 107  | 106  | 102  | 100  | 104                         | 106  | 102  | 103  | 103  | 103  |
| CY | 105                    | 105  | 102  | 96   | 93   | 89   | 112                           | 105  | 103  | 98   | 98   | 93   | 89                          | 91   | 90   | 94   | 93   | 91   |
| LU | 256                    | 247  | 254  | 265  | 264  | 257  | 143                           | 143  | 137  | 138  | 139  | 136  | 127                         | 133  | 136  | 135  | 134  | 137  |
| HU | 63                     | 64   | 65   | 65   | 65   | 66   | 60                            | 61   | 61   | 62   | 62   | 62   | 64                          | 58   | 57   | 56   | 56   | 55   |
| NL | 139                    | 137  | 135  | 135  | 132  | 131  | 125                           | 124  | 119  | 118  | 116  | 113  | 106                         | 110  | 112  | 112  | 112  | 114  |
| AT | 124                    | 126  | 126  | 128  | 129  | 128  | 116                           | 118  | 120  | 120  | 120  | 120  | 109                         | 112  | 109  | 111  | 111  | 113  |
| PL | 55                     | 59   | 62   | 64   | 66   | 67   | 61                            | 65   | 68   | 70   | 73   | 75   | 64                          | 54   | 56   | 55   | 53   | 53   |
| RO | 48                     | 49   | 50   | 51   | 53   | 55   | 50                            | 48   | 51   | 53   | 55   | 57   | 56                          | 51   | 50   | 49   | 47   | 49   |
| SK | 71                     | 71   | 73   | 73   | 74   | 75   | 69                            | 71   | 72   | 72   | 73   | 74   | 64                          | 67   | 64   | 65   | 65   | 65   |
| UK | 114                    | 112  | 108  | 106  | 107  | 109  | 126                           | 124  | 116  | 114  | 115  | 115  | 105                         | 98   | 109  | 110  | 116  | 114  |

Source: KSH, edited by the writer

In case we are examining only comparable prices and we claim that we are calculating the GDP at prices of 2008 and 2010, in other words, if we are having look at only the volume and we do not pay any attention to the changes of prices, then it can be seen that Hungary can survive the effects of crisis. It can be said that we are now about where we were before the crisis. If we have a look at the regional datum, then it can also be seen that the Chechens, Slovaks and Romanians are in similar shoes since they are just about to catching themselves, so from this perspective we are not lagged behind. The situation of Poland needs to be examined separately since they started from a completely different stage towards crisis, they had different possibilities from budget perspective for this reason they were able to maintain their growth path whose volume is attractive in more years' average. An explanation for the excellent results of Poland can be that it possesses a huge home market in addition the crisis appeared in the country, in a lucky period of time. It refers to the period when the construction on the football European Championship roughly coincided with the time when the European crisis emerged. In this way they were able to smooth their economic performance. Slovakia means a good example for the way how it is possible to build a competitive economy. Not only did they reach their performance before crisis but they also exceeded that one.

Household expenditures as they result from budget limitations at the one hand and choices based on needs, demand, preferences etc. on the other may be regarded as manifestations of



economic and social inequalities as well as cultural differences and social distinctions (Noll, 2007).

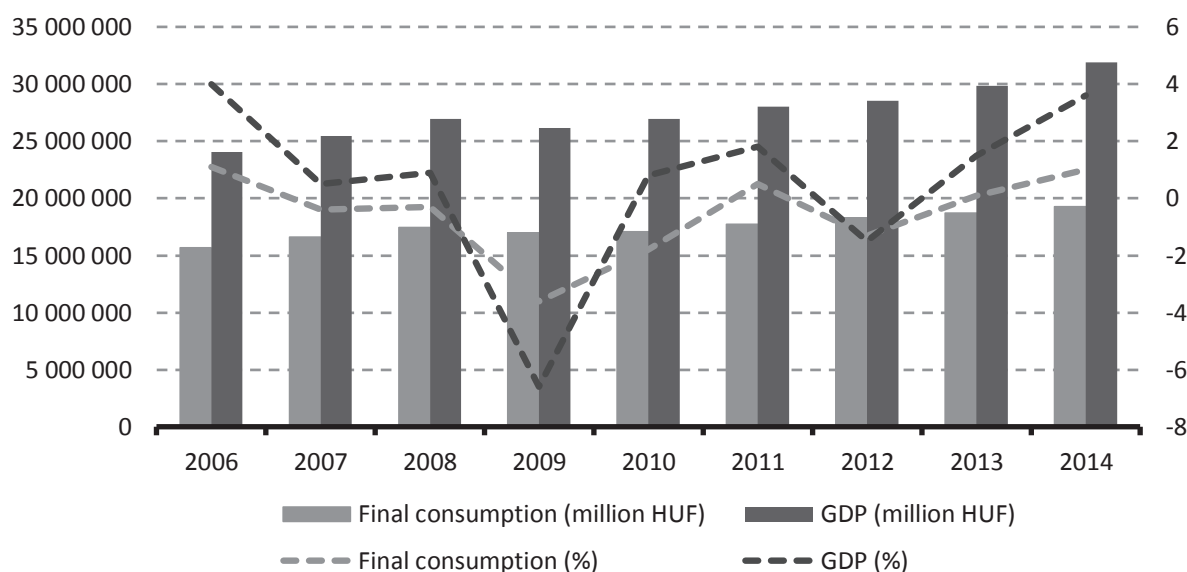
Regarding real personal consumption, the volume index of the examined countries can be said more homogeneous than GDP however there are considerable differences among nations. Luxembourg reached 36% increase in 2013 comparing the average of the 28 EU Members, which came from the fact that the border line commuters tend to spend their income in their own home country therefore their household expenditures appear on their account of their country. Among the European Union Members, Germany has 22% performance, but Austria is so close to it with 20% increase. Germany belongs to those very few nations, where the consumption inclination was always increasing, even it was the only country which developed by 10% between 2007 and 2013. None of the nations was able to achieve this performance. The most unfavourable of this period was the United Kingdom, which fell down from the above average 26% to 15% between 2008 and 2013. From the breakout of the crisis, the Southern European countries have been suffering from the effects of recession most of all. In 2008, the consumption of Spain, Greece and Cyprus started to fall deeply, which is in correlation with the performance of the economy. The consumption of all nations lagged behind far from the level before crisis. The performance of the Visegrad four countries was also under the average, where Hungary was the straggler. The index of our country moves between close figures, and its recession is more significant than the average. Despite realizing growing tendency in the production of gross national products in both countries, the fall behind the European average is considerable and desperate. The fact seems to be an oversimplification that the GDP per capita can be used as the indicator of the average living standards of the citizens living in the country nevertheless we need to admit that it is the index-number of the economic production, which can be fundamentally divided into two components, namely investments and consumption (+ net export). If we examine this question in this relation, both countries have a lot of things to do (Timár, 2014). Bulgaria's situation still seems hopeless, but not in neighbouring Romania in an enviable position. Both countries are able to achieve only the half of the European Union average (Szóke et al., 2012).

The price level adjustment factors to determine the previously mentioned volume indexes (GDP, AIC) can be applied by the analyses of the price level of certain countries. The right side of Table 1 shows the price level of certain countries from the perspective of real personal consumption however it does not contain the exchange rates used by calculating the price level indexes<sup>5</sup>. The highest price level among the previously examined countries can be found in Luxembourg, which is the second most expensive European Union Member after Denmark. A little behind, but the Netherlands, the United Kingdom and Austria have still above the EU average price level. Germany and Italy are above the average with only some percentages. Bulgaria and Romania belong to the cheapest members, where the price level cannot reach half of the European Union average, and the life is much cheaper than the average in Poland, Hungary, Slovakia and Czech Republic, in which countries the price level is under the average with 47-56% percent.

Fundamentally, the study is examining consumption in relation to GDP. However, the accuracy of the chosen methodology can be supported or it can shatter its relevance if we examine that how much the direct consumption of the GDP is? The production side of the GDP can show how much each sector has contributed to the expansion of the GDP, on the using side, the final consumption expenses of households can be seen, which indicator can confirm the close correlation between consumption and GDP. From the below figure, it is

<sup>5</sup> The price level index means purchasing power parity and the exchange rate quotient. Differences in price levels between countries are measured by showing, for a given product group, how common currency unit is required to purchase a particular product group in each Member State.

distinctly visible that the final consumption of households means more than two-thirds of the GDP, this rate is above 60% in all examined years (Figure 4).



Source: KSH, edited by the writer

Note: the contribution of the final consumption to the GDP calculated from the indexes compared to the same period of the previous year

Figure 4

The end use of the GDP at current price (million HUF) and the contribution of the final consumption to the change of the GDP (%), 2006-2014

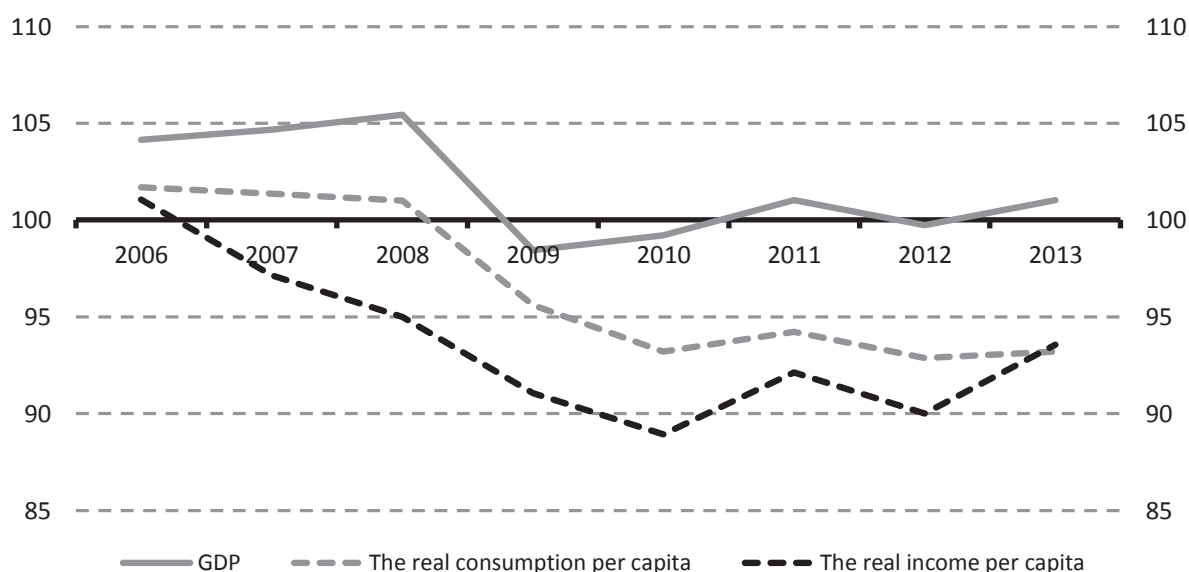
It can be stated that the final consumption can cover significant percent of the GDP in constant manner, its volume behaves more or less similarly to the GDP for this reason the use of GDP is established in this methodology. It seems to be interesting that the biggest proportion, which is 65.3%, was measured in 2007 before the most critical years of the crisis and the lowest value (60.5%) was seen last year. The low proportion of year 2014 can be explained by the significant expansion of the performance of the agriculture, construction industry and processing industry. Besides, the effect and result of the Funding for Growth Scheme of The Central Bank of Hungary started in June 2013 culminated in 2014. Until October 2014, more than 16 000 micro, small and medium sized enterprises have been given developmental loans to the value of altogether 1 153 billion HUF, which means the sixth of the total corporate loans and fourth of the SME loans. The bottom of the consumption volume of 2009 is clearly the effect of the financial crisis, however the further setback can be explained by the institution of the early repayment. In the program finished on 29th February 2012, 169 256 currency based loans were early repaid in the value of 1 354.4 billion HUF.

The decrease of the household financial burdens can activate the consumption, but we should take into consideration the fact that the primary favoured of the measures must be the wealthy families which have significant saving inclinations. In addition, the early payment meant the using up of savings therefore the households must settle in new accumulation. Probably, they tend not to spend their extra incomes on additional consumption.

The credit program of the Central Bank of Hungary is able to activate the economy throughout several ways and indirectly it can affect the consumption with the help of workplace building and the expansion of real wages. Besides using new loans, the exchange of the present currency based loans was also significant, which contribute to the liveness of business activity, preservation and expansion of workplaces as well as to the improvement of

credibility of the SME sector. The effects of new loans on the economy will be executed through the expansion of the production capacity-these are mostly investment kinds. Of course, it is a question to what extent this program could contribute to the economic expansion and what kind of real economic effects it has had on macro level. In the study of the Central Bank of Hungary of 2014, measurement was given about the demand of loans and the demand of investment loans with more methods. The approach is based on credit supply means 0.5%-1.1% while 0.3-0.9% integrated GDP expansion can be expected from the demand side as a result of the credit program provided between 2013 and 2014 (Bokor et al., 2014). It can be seen well that after the break-out of the crisis, the external sources became difficult to use in the SME sector, which was thanks to the tightening of bank lending. As a consequence of interest rate cut in 2012, the interest cost were declined considerably, but the expected result, which was the revival of investment activity, and the implementation of credit was postponed. The credit program ensures more favourable finances than available on the market and the lower instalments can develop credibility, which leads to the expansion of credit supply. The corporate lending was increased by 4% in 2014 although if we deduct the central bank activity from this then we can experience a decrease. It cannot be regarded as a healthy structure since the Credit Program of the Central Bank of Hungary keeps the lending on growth path, which cannot be maintained on the long run. As an initiative, it seems to be a good program however the market finance is indispensable to encourage credit inclination. The upgrading in March of the international rating services provider, Standard & Poor's-the rating of the Hungarian debt was BB+ – might bring positive changes.

The size and the distribution of the income and expenditure inequality of households can be seen as one kind of perspective of the general financial situation and wealth, however, the examination of only the inequalities gives no satisfying answer to the question how to change the financial situation and basically determining the relative wealth of the income and expenditure of households. For the nuanced examination of the financial situation of households, there is a need for detailed analyses of the temporal changes in the relative positions of the household income and expenditure pattern, shifts between the income and expenditure sub-categories (Kapitány - Molnár, 2005). The GDP of Hungary had consistent growth path until the year of the crisis when in 2009 it plummeted finally, by 2013, it finished with positive performance however, it has significantly lagged behind with comparing its performance before the crisis. Essentially, the development of the real wage and real consumption per capita refers to the GDP growth trend. It is an interesting discovery that until 2012 that time moving together consumption and income were not so close as in 2006, however, in 2013 while the real consumption reached only 0.3% increase comparing the previous year, the real income was increased by 4% (Figure 5).



Source: KSH, edited by the writer

Figure 5

The volume indexes of macro level indicators (2005=100), 2006-2013

Behind the still holding real growth, the decline in the loan portfolio stands more or less. The foreign currency loan bailouts, including preferential early repayment and the exchange rate stop made it possible for the inhabitants to receive some additional sources. Besides, the inflation circumstances as well as other family benefits, the system of family tax-allowance, the teaching career model, the increase of minimal wage and pensions and the partial settling of the health care wages gave rise to the increase of real wages, which could improve the situation of some well-defined social groups. However, this fact can increase the savings of households. The exchange of currency based loans to Hungarian forint can bring some further improvements in the financial situations of households and it can increase their savings. The accounting and exchanging of currency loans together mean about 1 000 billion HUF burden for banks, refers to the one-third capital of the Hungarian banking sector. After the expiry of currency loans, the market can only hope in that the banks are capable of devoting their sources available for crediting the members of the Hungarian economy and the further increase of the economy.

The public asset has been increasing continuously from the crisis while due to the previously mentioned reasons, their loans has been decreased. The savings of households have been declined by 9% from 16.8 thousands billion HUF to 15.4 thousands billion HUF between 2007 and 2008. Following that the household assets have been increasing, which showed more than 10% increase in the last three years. One determined reason for the increasing income is that people have less and less credit. The peak of the loans was in June 2010 (11.5 thousands billion HUF), which was declined to 9 thousands billion HUF, which can refer to the bottom of the last 6 years. The inclination for loans of Hungarians is very high in international comparison however its reasons are understandable. Since 2008 the public loans have been risen by 20% in Europe. Even the Greeks most affected by the crisis also produced better numbers than the Hungarians. Greece fell only 3 percent in the loan portfolio, which in our case was a 14 per cent. If we examine our country among the Visegrad countries, the setback is even well-marked: the retail loans were expanded by 50% by Slovaks and Polish, while it was 25% in Czech Republic. In case of our country, we need to mention that we should not disregard of the fact that 90% of the prior to the crisis of loans was in currency

in addition, the weakening of the forint, itself, increased the amount of public loans (Giday, 2013).

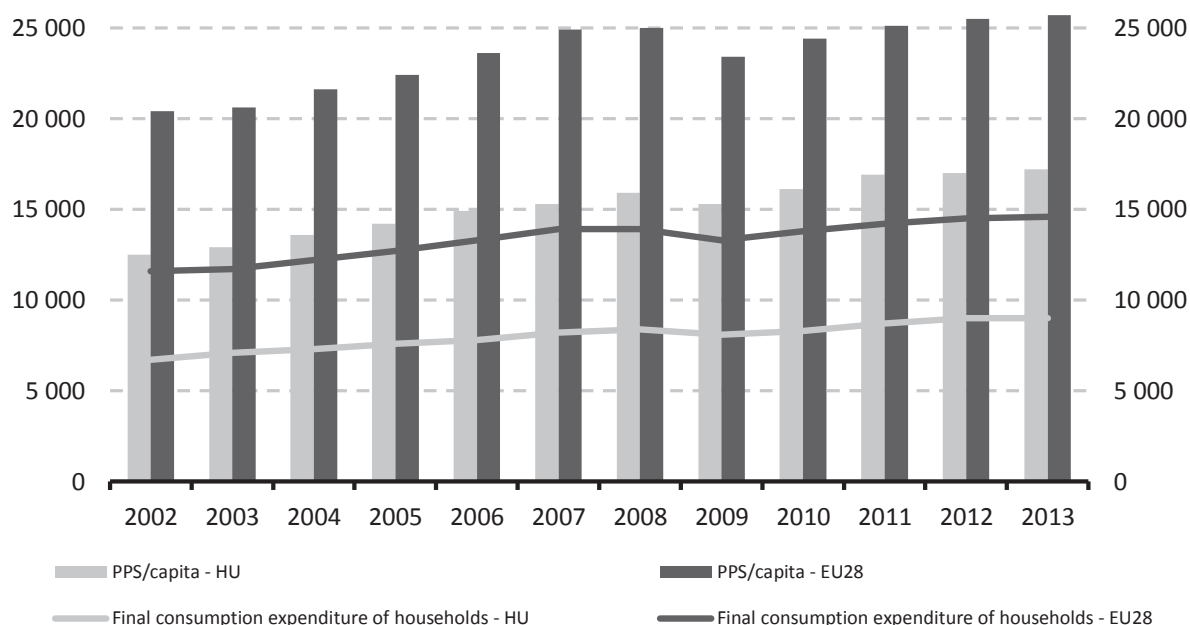
In order to receive complete picture about the expenditure habits of Hungary besides dynamics, it is worth examining the amount of disposable income per capita. We should see how much income the citizens of each nation possess and – what is the main aim of this study – how much is spent on consumption and how the structure of the consumption has been changed throughout years. Due to the different currency of the nations, and in favour of the objectivity of the comparison, I am going to use the PPS indicator. In the methodology, I am going to outline the difference between theoretical perspective of the total consumption of households and the consumption of real individual and despite the fact that in international comparison the latter is more preferred, I am opt for the other alternative indicator as a basis of my study since it also includes the total purchased and paid goods and services. The explanation for my decision is that the total consumption data of the households per capita can not be found in PPS only in Euro in the database of the Eurostat, which would twist the conclusions. I consider it important to notice that the total expenditures contain neither the direct taxes, the investments (such as buying a house), the costs of business activities nor the benefits come from the governmental welfare services (including education and health care) (Timár, 2014).

In case the 28 Member States of the European Union are analysed, well-marked differences can be experienced both in purchasing power parity and in consumption expenses. Luxembourg standing on the top of the list had 67 900 PPS in 2013 while the spendable income of Bulgaria last on the list was only 12 000 Euro. It refers to a five times difference, which is staggering. Romania following the straggler Bulgaria has the smallest affordable income. A plenty of further duties can be indicated well that Hungary stands next in line with its 17 200 Euro, which means one-third of the European Union average. Give rise to some optimism that between the worst years of 2009 and 2013, the indicators of Hungary were increased above the average of the EU 28 (9.4%). However, the 12.4% increase was enough only for the third position among the Visegrad countries. The most considerable development was reached by Poland with its 23.2% and it was followed by Slovakia with 15.3%. The most slightly change was indicated by Chechens, which was considerably under the European Union average, almost exceeding the 6%. If we have a look at our other neighbour, Austria, the disposable income was risen by 12.5% from 2009 to 2013. Almost alike increase can be seen in Hungary as well, however, while the Austrians were able to manage more than 33 200 PPS in 2013, the Hungarians had only 17 200 Euro. The difference is food for thought. If we compare the situation of Hungary with the average of the 28 Members of the European Union, the figures do not show better image (Figure 6). In 2013, the European Union average was 25700 Euro, which meant that the spendable money was 50% more. It can be well-seen from the graph that not only Hungary but the other European countries also suffered from the year of 2009 although there was hope for that they exceeded the figures before crisis also in income and in consumption in 2013.

Regarding the consumption expenses per capita, it can be stated that similar route is written by the indicators to the one that we have seen by purchasing power parity. Comparing the consumption with the EU average, the difference can be regarded as constant, about 60% in case of Hungary. It is without doubt that the several years of backwardness can be an explanation, however if we examine the average growth rate of European Union and Hungary in the perspective of the two indexes, we do not have to be ashamed. Whilst the EU achieved a growth rate of 26% in consumption from 2012 to 2013, Hungary reached 34% in the same



period.



Source: KSH, edited by the writer

Figure 6

The dynamics of change of Hungary and the EU28 (PPS/capita), 2002-2013

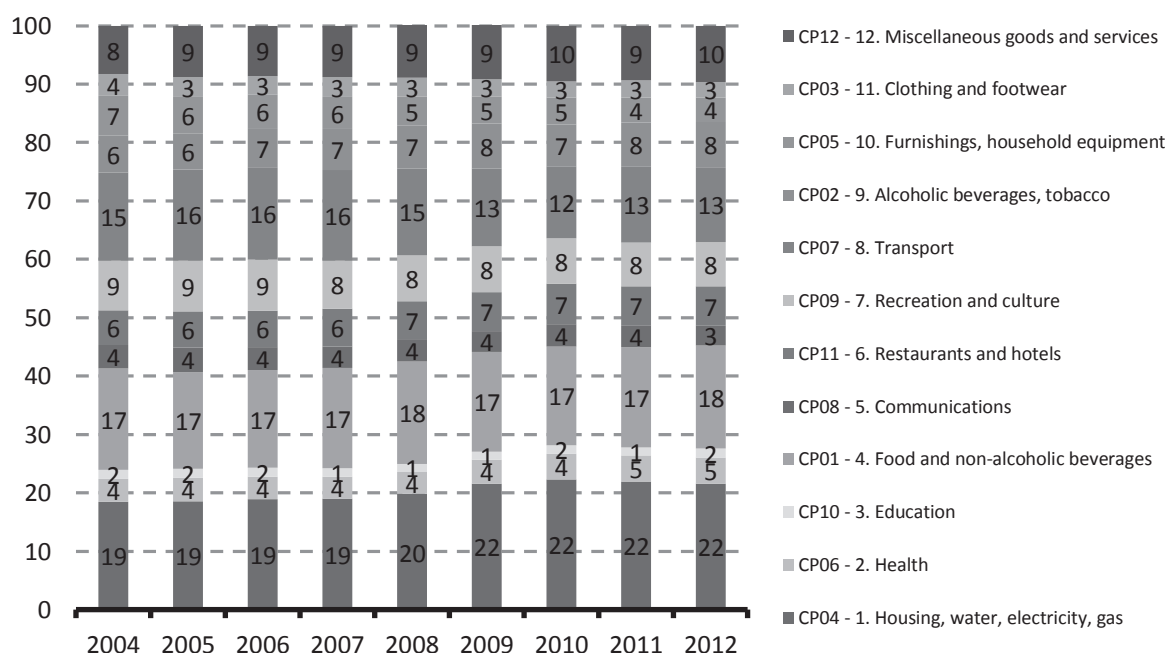
The consumption expenses of our country were from the low base on a calm but increasing path until 2008 following that in 2009 the expenditure of households fell back slightly, which was followed by an increase period. The decrease from 8 400 to 8 100 Euro meant almost 4%, which was 5.3% in European Union average. In 2003, from the perspective of money spent on consumption, the order among the Visegrad countries changed to a certain degree. It is interesting that as for the income available, the Czech Republic stands in the first place (20 600 PPS) while it is positioned in the third place, which means that they think over their expenses and significant part of their income is invested in savings. The Slovaks take the second place in both categories while the Polish tend to spend all of their humble income-it hardly exceeds the Hungarians' (17 500 PPS). Our country is positioned in respects of both consumption and disposable income in the last place. Our situation is well indicated by the fact that we are able to pass only Romania and Bulgaria in the field of EU28.

In my study, I am going to show the consumption attitude of population in households applying the grouping (12 main consumption areas are distinguished) of the COICOP – system (Classification of Individual Consumption by Purpose) (Timár, 2014). My intention is to find an answer to the question how much proportion of the 12 categories of the COICOP system represents each field from the whole consumption of the household. In order to understand deeply the changes happened in the structure of the real consumption of the households, every category is separated into three groups:

1. Predictable, expenses necessary for sustenance of life: Home maintenance, Food, Health and education
2. Pleasure expenditure: Communications, Restaurants and hotels, Recreation and culture
3. Expenditure based on decision: all of the other categories, except Miscellaneous goods and services



Housing, water, electricity, gas are the first expenditure of the Hungarian households preceding the category of Food and non- alcoholic beverages (Figure 7).



Source: KSH, edited by the writer

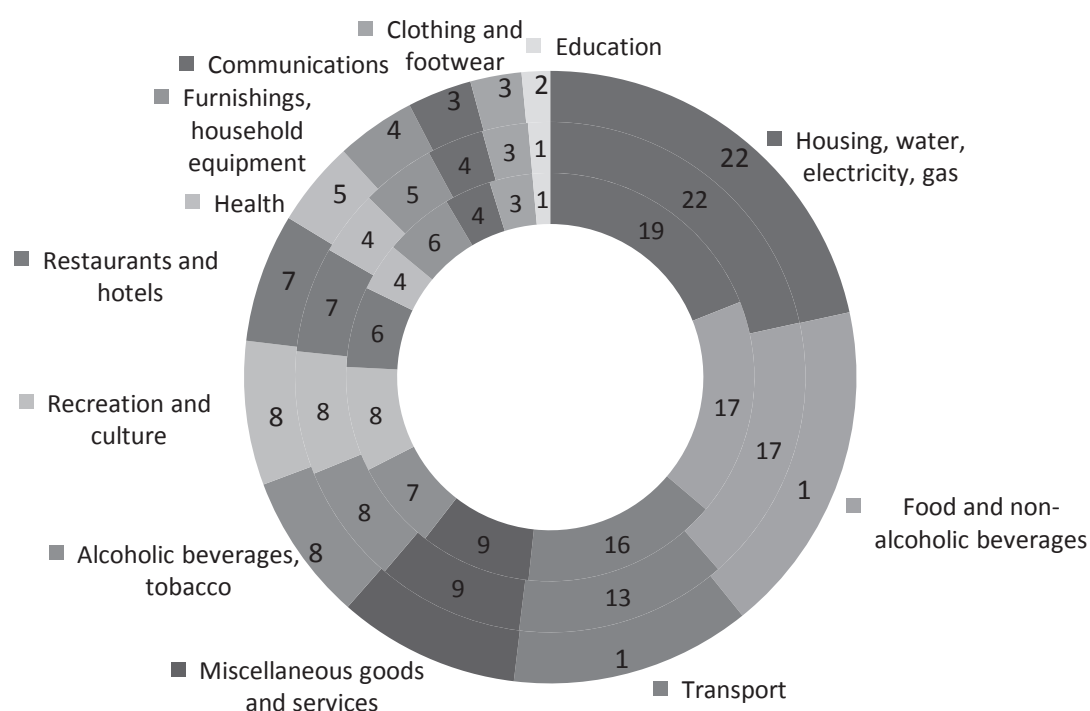
Figure 7  
The consumption structure of households, 2004-2012

It is known that the prices of heating and electricity showed great increase in the past years, increasing the household expenditures. In the past decade the price of the electricity was increased by 100% and the price of the gas was mounted by 120% moreover, the fee of the water and sewer supply went up by 70-75% which can be weakened by the decrease of the living costs experienced from 2013 – showing up on international level as well. In Hungary more than 50% of the expenditures include the items of Housing, water, electricity, gas, Transport, and the Food and non-alcoholic beverages in all of the years of the examined period. The Hungarians tend to spend the less on Education (2%), Clothing and footwear, and Communications (3-3%). As a consequence of the crisis, several items of the expenditure – such as Clothing and footwear, Communications, Furnishing, household equipment, Restaurants and hotels, and Recreation and culture – have not changed. (Timár, 2014).

In this case the question can come up what fell victim to the crisis? The most disadvantageous is the Transportation, which is followed by the expenses on Food and non-alcoholic beverages. The decreasing proportion of Food and non-alcoholic beverages is in relation to principle social-demographic changes. People tend to spend less and less time cooking, more and more people live alone and the role of food is not the same as in the past. General behaviour is today as well that people are opt for cheaper products, the own branded products of commercial chains in order to fight against the increase of other types of costs. The large-scale of fall of Transportation can be explained by the increase of the maintenance costs of cars (such as the price of the petrol) playing primary role in the everyday of citizens. It seems that people prefer other means of transport, which mean lower total costs. I can believe that riding by bicycle as well as going on foot become preferable besides public transport. Regarding the expenditure categories, the obligatory expenses (marked with 1 to 4) were

increased by 4% from 24% to 28%. However, the expenditures of pleasure (marked with 5 to 7) and the expenditures based on decision (marked with 8 to 11) reduced. It means that households make a sacrifice due to the increased obligatory expenditures and they give up pleasure costs. It cannot be proved better by the fact that the pleasure expenditures are reduced by 4% in the examined period from 49% to 45%. The expenditures based on decision have not declined notably only from 19% to 18%. (Timár, 2014).

The under mentioned figure shows excellently what kind of structural changes the household consumptions has gone through throughout years, how the expenditure has been structuralized again (Figure 8). The biggest expansion was in the expenses about apartment reservation which was increased from 19% to 22%. Within this segment, naturally, the weight of the household energy is the most considerable, which as a result of overhead reduction the proportion can be managed in 2013 and in 2014.



Source: KSH, edited by the writer

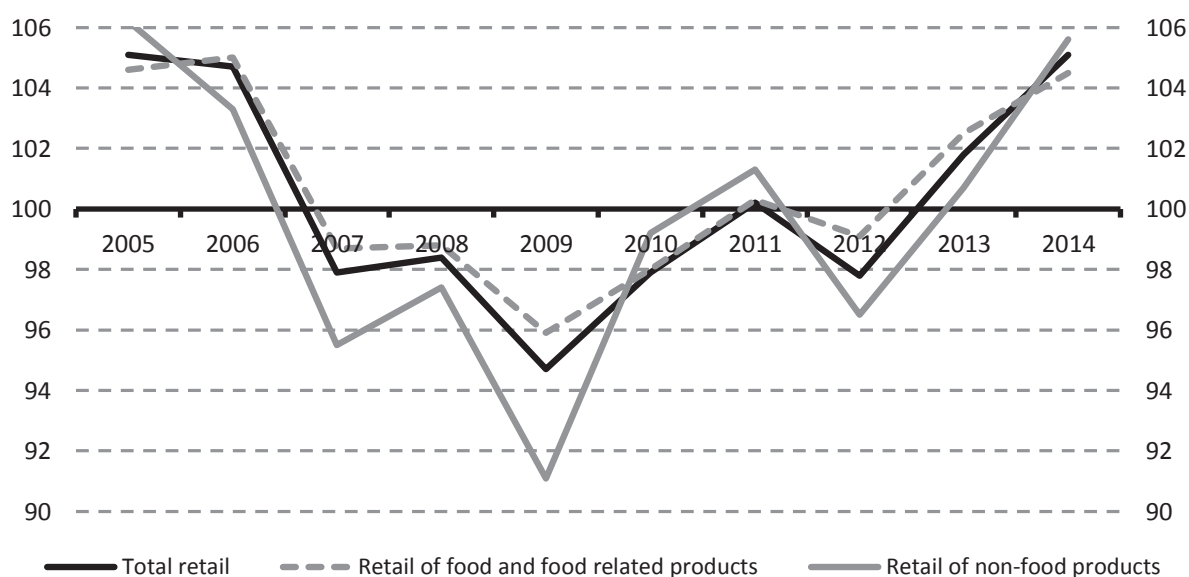
Figure 8

The consumption structure of households, 2007-2009-2012 (from inside out)

The most significant decrease is shown by travelling costs which have been influenced by the worldwide price of oil and the changes HUF/USD exchange rate of the examined period. Clothing and entertainment fall victim of the effects of crisis since their proportion within expenses has not changed. We tend to spend more on food, spirits, tobacco, catering, education and health care comparing 2007. An interesting trend can be realised in the field of communications. In this field, the expenditures have been continuously decreasing, which can be explained by the strong market situation resulting in the very rapid development of this industry. It will be interesting to examine the change of the expenses structure after the datum in 2013 and 2014, when the effects of the previously mentioned factors can be realized.

## SUMMARY

The retail turnover increased by 5.1% comparing 2013 with 2014. This refers to the fact that for the second year the increase of the turnover and the consumer inclination has been unbroken. Between 2007 and 2012 the retail turnover went through a long and painful period and only by now it could achieve its performance the figures before the crisis. All signs indicate that the Hungarians tend to spend their possible extra income on such consumer goods which could not be bought during the years of crisis. This fact seems to be confirmed by that non-food retail sales volume has continuously been increasing from 2012 comparing with the food expenditure volume even in 2014, it was exceeded (Figure 9).



Source: KSH, edited by the writer

Note: volume index (the same period in the previous year=100)

Figure 9

The unadjusted volume index of retail sales, 2005-2014

It is not only confirmed by figures, however, noticeably, more consumers tend to spend more money in supermarkets, petrol stations and in department stores and it also can be seen that these favourable processes are going to continue in the next months, which envisions further growth of personal consumption. Not only does the volume increase month to month but the consistence of the consumer basket also changes. In other words, it means that there is a tendency among consumers to seek for the higher-value products on the shelf and at a higher price. Behind these impressive figures is a combination of several factors. Due to low inflation, the purchasing value of wages and pensions increases. As a result, the real wages were increased by around 3%, which is practically the same as the level of net wages. The overhead reduction, the settlement of foreign currency loans and the low fuel price all help with the expansion of consumption since more is left in people's pocket. In the background of the continued growth of consumption, the factor can be realized that not only do people earn more than before but also they trust in better future earnings. It is a significant condition since based on international experiences, the income growth can lead to consumption growth if in the long run, firm belief is in continue remain.

It is important to increase consumption since it can make the economic growth long-lasting. The more than one year-long increasing retail turnover makes its influence felt as only before the world-wide economic crisis, in 2006 was the last time when the performance of the

Hungarian economy increased more efficiently than in 2014. Since 2006, not 3 or 2% annual expansion could be seen however, it is also worth mentioning that behind the European record 3.6% growth in 2014, the considerable sources from EU can be seen mainly. Naturally, the economy was developed by the consumption growth on the user side due to overhead deduction and by the investment expansion thanks for central bank credit program. The rapid rate of growth means also that we are on the right road, however, the GDP growth not seen in seven years was influenced by such factors which will not be repeated in the future. According to some statistics, the effect of the Funding for Growth Scheme of The Central Bank of Hungary could increase the GDP with one percentage point. Not only did the previously mentioned program but also the quick coming of the European Union sources encourage investments and the economy. The governmental investments related to the election will not appear so strongly in the future. It is foreseeable that these one-time factors played an amazingly important role in the growth and despite the outstanding growth the potential release has hardly improved. As a reason for optimism, the collapse of oil prices on the world market will hold the inflation on the bottom in all probability and the exchange of foreign currency loans can give new impulse to household consumption. One very important element of uncertainty can disappear with the exchange of foreign currency loans, which will appease the public's caution and a new, predictable and courageous consumption can begin.

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**Author:**

**Timár István Zorán**

Ph.D student, SZIE Enyedi György Regionális Doktori Iskola  
Network manager, Allianz Hungária Biztosító Zrt.,  
5600 Békéscsaba, Mednyánszky utca 17.  
[zoran.timar@gmail.com](mailto:zoran.timar@gmail.com)