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MODEST GROWTH, EXCELLENT EQUILIBRIA, PRICE INCREASES STARTING

GKI continues to expect a GDP growth of 2 per cent in 2016. Internal and external equilibria are very favourable, and inflation almost ceased, although it slowly began to pick up in September. The significant decline in investments in 2016 will be followed by a noticeable growth in 2017 mainly due to the restart of the inflow of EU transfers, while consumption, which is increasing very rapidly this year, will barely slow down. GKI expects GDP growth of 2.7 per cent in 2017. In October, the IMF lowered its 2016 GDP growth forecast for Hungary to 2 per cent and left it unchanged at 2.5 per cent for 2017.

In the first half of the year Hungary's GDP growth lagged behind most of its regional competitors (the Polish rate was 2.8 per cent, the Slovak 3.7 per cent and the Romanian 5 per cent) and the EU average as well. After the unfavourable statistical data of July (industrial production and exports fell, the decline in construction was more pronounced than in the previous month, retail sales growth slowed down and business expectations were declining), economic trends were slightly more favourable in August. Thus, though industrial production compared to the previous month fell between May and July, it grew by 1.6 per cent in August. (On a yearly basis, the increase was 11 per cent; however, there were three additional working days in 2016 compared to 2015.) This level is only 1 per cent higher than at the end of 2015. In 2016 industrial production will mount by about 2 per cent, and it may accelerate to 3.5 per cent in 2017. Although the volume of construction output dropped by 22 per cent in the first eight months of 2016, the rate of decline is slowing down, and the stock of contracts is 20 per cent higher than a year earlier. The decline of around 20 per cent in 2016 might be followed by a 10 per cent growth next year. Retail sales grew by 4.9 per cent in the first eight months, and they can be expected to increase at a similar rate in 2016, by around 5 per cent. Hungarian exports rocketed in August and increased by 12.5 per cent on an annual basis in euro terms, resulting in a 3 per cent growth in the first eight months of 2016. The more than 2 per cent improvement in the terms of trade also contributed to the huge foreign trade surplus.

Gross earnings grew by 6 per cent in the first eight months of 2016 (by 6.5 per cent with the exclusion of those involved in public workfare schemes), and by 5.3 per cent in the private sector. Real earnings are expected to increase by 7 per cent in 2016, and by "only" 4.5 per cent in 2017 (due to the phasing out of the income tax rate reduction of 2016 and the acceleration of inflation). A slightly lower rate of growth is likely in the private sector. In September, inflation jumped to 0.6 per cent, its average in the first nine months was 0.1 per cent. The main reason for the rise was the fact that low fuel prices had already been included in the statistical base. In addition, the rise of food prices also accelerated. Price increases are expected to accelerate in these two product groups in the coming months due to an increase in the excise duties on fuels and the rise in milk prices in foreign markets. The rate of inflation is projected to be 0.5 per cent in the average of 2016 and about 1 per cent at the end of the year. It may be up to 1.5 per cent in 2017.

Consumption will definitely be the main driving force of the economy in 2016. In contrast to its 4.5 per cent growth, investments are expected to decline by around 10 per cent. Investments are projected to increase by about 5 per cent in 2017 due to the faster utilization of EU transfers and some upturn in business investments, whereas consumption will decrease only slightly, to around 4 per cent.

The general government deficit virtually disappeared by the end of September. The decrease in capital spending and interest expenses, the soaring corporate tax receipts as a result of tax credit for growth (mainly from GE), last year's postponed EU transfers, land sales revenues and the increase in social security contributions and income tax revenues have played a major role in the reduction of the deficit. However, an increase in government spending can be anticipated during the rest of the year.

FORECAST OF GKI FOR 2016-2017

Description	2014	2015	01-08 2016	2016	2017
				forecast	
1. GDP (%)	104.0	103.1	101.9**	102	102.7
2. Industrial production (%)	107.7	107.5	102.3	102	103.5
3. Investments (%)	119.3	103.8	82.7**	90	105
4. Construction services (%)	113.4	103.0	78.0	80	110
5. Retail trade turnover (%)	105.2	105.8	105.0	105	105
6. Exports (current prices in euro, %)	104.0	107.0	103.0	104	106
7. Imports (current prices in euro, %)	104.7	104.6	101.4	103	108
8. Foreign trade balance (EUR billion)	6.3	8.6	6.6	9	8
9. Balance of the current and capital account (EUR billion)	6.1	8.7	3.6**	7.7	8.2
10. Average exchange rate of euro (in HUF)	308.7	309.9	312.2***	312	315
11. General government financing needs* (HUF billion)	825.7	1218.6	2.4***	700	750
12. Index of average gross earnings	103.0	104.2	106.0	106	106
13. Consumer price index	99.8	99.9	100.1***	100.5	101.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	99.3	100.9	100.6***	101	102
15. Rate of unemployment (at the end of the period, %)	7.1	6.2	4.9****	5.1	5

* Cash flow basis, without local governments

** First half of 2016

*** January–September 2016

**** June–August 2016

Sources of actual data: CSO, NBH, NGM

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