



## SPECTACULAR EXPANSION OF INVESTMENTS CONTINUED

The growth rate of the Hungarian economy was noticeably lower in the second quarter of 2017 than in the first one, and it was one of the lowest in the CEE region. However, it still exceeded the EU average. The spectacular expansion of investments continued, and on this basis, GKI raised its GDP forecast for 2017 to 3.8 per cent. The trends are favourable in the short term; however, long-term solutions are still missing.

The Hungarian economy grew by 4.2 per cent in the first quarter of 2017 and by 3.2 per cent in the second one. In fact, the number of working days of each quarter was different from that of last year. Taking this and other seasonal effects into account, the slowdown was much lower, from 3.8 per cent to 3.6 per cent. Gross figures of growth rates in the second quarter of 2017 showed deceleration in industry and foreign trade and acceleration in construction, trade and tourism. There may be a significant decline in agriculture, including crop production. Imports (in EUR terms) increased by about 1.5 percentage points faster than exports in the first half of 2017, due partly to the 1 per cent deterioration in the terms of trade and partly to the increase in domestic demand. Growth of Hungary's exports was moderate in the CEE region.

Investments increased by 23 per cent in the first quarter and by 27 per cent in the second one, compared to a very low base. The expansion of public administration and defence (including border protection) and the transport sector (including road construction) was exceptionally high, around 60 per cent.

The official unemployment rate dropped by 0.8 percentage points in May-July 2017 over the previous year, to 4.2 per cent. This is the fourth lowest rate in the EU; however, if compared to the end of last year, the decrease is minimal. The fact that the number of those involved in workfare schemes decreased by an average of around 30,000 in the first half of 2017 also contributed to this statistically very low level of decline. The number of employees increased by 2 per cent in the first half of the year (by 3.2 per cent with the exclusion of those involved in public workfare schemes). A further reduction in the number of those involved in public workfare schemes before the elections is unlikely. The results of GKI surveys conducted in summer show that labour shortages were considered to be the most important obstacle to growth in all sectors. In addition to labour shortage, especially the raise of the minimum wage led to a nearly 12 per cent increase of gross wages in the first half of the year. In the second quarter, real earnings grew by about 2.5 percentage points faster than in the first one, which was the result of usual wage increases in April and temporary downward inflation. Growth in retail sales also accelerated in the second quarter, though by only around 1 percentage point. As a result, in the first half of 2017 real earnings increased by 9 per cent, whereas growth of retail sales did not reach 4 per cent. This may indicate that the raise of the minimum wage entailed a decline in grey wages and households probably reduced their debts.

## THE FORECAST OF GKI FOR 2017

	Description	2014	2015	2016	2017	
					Q1-Q2	forecast
1	GDP (%)	104.0	103.1	102.0	103.7	103.8
2	Industrial production (%)	107.7	107.5	100.9	105.6	105.5
3	Investments (%)	119.4	107.1	85.1	125.4	117
4	Construction services (%)	113.4	103.0	81.2	127.0	122
5	Retail trade turnover (%)	105.2	105.8	104.5	103.9	104
6	Exports (current prices in euro, %)	104.0	107.0	102.9	108.8	110
7	Imports (current prices in euro, %)	104.7	104.6	101.5	111.3	112
8	Foreign trade balance (EUR billion)	6.3	8.6	9.9	5.3	9
9	Balance of the current and capital account (EUR billion)	6.1	8.7	6.1	1.4**	7.5
10	Average exchange rate of euro (in HUF)	308.7	309.9	311.5	308.8***	310
11	General government deficit* (HUF billion)	825.7	1218.6	848.3	816.8***	1300
12	Index of average gross earnings	103.0	104.2	106.1	111.7	112
13	Consumer price index	99.8	99.9	100.4	102.3***	102.5
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	99.3	100.9	101.8	102.1***	102.5
15	Rate of unemployment (at the end of the period, %)	7.1	6.2	4.4	4.2****	4.3

\* Cash flow basis, without local governments

\*\* First quarter of 2017

\*\*\* January-July 2017

\*\*\*\* May-July 2017

Sources of actual data: CSO, NBH, NGM

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