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THE FOUNDATIONS OF SUSTAINABLE ECONOMIC GROWTH SHOULD BE ESTABLISHED NOW

Trends in the Hungarian economy of the first half of the year have continued in the past few months. Although the 3.8 per cent GDP growth in the third quarter of 2017 once again exceeded the EU average of 2.5 per cent, it is among the low ones in the CEE region. GKI maintains its GDP growth forecast of 3.8 per cent for 2017 and 2018. More and more international institutions call the attention of the Hungarian government to establish the foundations of sustainable economic growth during these relatively favourable years.

The growth of the Hungarian economy was significantly behind the majority of its regional competitors in the third quarter of 2017. The Czech and Polish growth rate was 5 per cent, the Latvian rate exceeded 6 per cent and the Romanian one reached almost 9 per cent; though the latter led to serious imbalances and reflected an overheated economy. According to data published so far only the Slovak growth rate (3.4 per cent) was below the Hungarian one. It is more and more unlikely that the government's expected growth rate of above 4 per cent can be reached this year. According to recent projections, the OECD forecasts 3.9 per cent Hungarian GDP growth in 2017, the EU 3.7 per cent, Moody's 3.5 per cent, and the IMF only 3.2 per cent. The Hungarian government expects 4.3 per cent GDP growth in 2018, whereas foreign forecasters, with the exception of the IMF that projected the lowest rate for 2017, expect some deceleration. In the current period of relatively rapid growth, international organizations call the attention of Hungary to the necessity of loosening its too strong dependence on EU transfers, reducing the general government deficit, restructuring the institutional system by applying a market economy approach and improving its non-cost competitiveness. They emphasize that growth driven by domestic demand will worsen Hungary's currently outstanding external balance as well.

Although the soaring of investments slowed down slightly in the third quarter of 2017, their rate will reach 20 per cent on an annual basis. Developments in the public sector, especially in the areas of public administration and defence, are growing much faster than those in the business sector (though the manufacturing industry increased by 15 per cent). In the first three quarters of this year 50 per cent more new homes (8 thousand) were built than a year earlier. The accelerated growth in retail sales foreshadows an acceleration in consumption, which grew by 3 per cent in the first half of 2017. Imports in euro terms rose by 3 percentage points faster than exports, reducing the extremely high level of foreign trade surplus.

Unemployment fell to 4 per cent in the average of August to October, whereas the number of those involved in public workfare schemes declined. However, a further reduction in the number of those involved in public workfare schemes before the elections is unlikely. GKI surveys show that companies consider the shortage of labour, especially skilled labour, the main obstacle to growth. Real earnings increased by more than 10 per cent in the first ten months of 2017. However, this also reflects the whitening effects of the forced minimum wage increase.

Although the Hungarian inflation rate is the seventh highest in the EU, the spectacularly rapid wage increases have barely affected prices until now. Although the general government deficit meets expectations, it will be significantly higher than the EU average, and only the Romanian deficit will be higher in the CEE region. There will be no budget deficit at all in about one third of the EU member states. The rate of decline in the Hungarian government debt is heavily influenced by the budgetary advance payment of EU transfers. Unless the inflow of EU transfers starts in the near future, this budgetary advance payment will significantly increase the cash flow deficit, which is already higher than planned for the whole year.

THE FORECAST OF GKI FOR 2017-2018

	Description	2015	2016	2017 01–09	2017 forecast	2018 forecast
1	GDP (%)	103.4	102.2	103.7	**103.8**	**103.8**
2	Industrial production (%)	107.5	100.9	105.2	**105.5**	**105.5**
3	Investments (%)	107.1	85.1	122.6	**120**	**109**
4	Construction services (%)	103.0	81.2	127.0	**125**	**110**
5	Retail trade turnover (%)	105.8	104.7	104.3	**104.5**	**103.5**
6	Exports (current prices in euro, %)	107.0	103.4	108.8	**110**	**109**
7	Imports (current prices in euro, %)	104.6	102.3	111.8	**113**	**110.5**
8	Foreign trade balance (EUR billion)	8.6	9.7	6.5	**8.5**	**7.7**
9	Balance of the current and capital account (EUR billion)	8.9	7.0	4.2**	**7.5**	**8.3**
10	Average exchange rate of euro (in HUF)	309.9	311.5	308.7***	**308**	**308**
11	General government deficit* (HUF billion)	1218.6	848.3	1418.2***	**1300**	**1400**
12	Index of average gross earnings	104.2	106.1	112.8	**113**	**107**
13	Consumer price index	99.9	100.4	102.4***	**102.4**	**103**
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	100.9	101.8	102.2***	**102.5**	**103**
15	Rate of unemployment (at the end of the period, %)	6.2	4.4	4.0****	**4.3**	**4.3**

* *Cash flow basis, without local governments*
** *First half of 2017*
*** *January–October 2017*
**** *August–October 2017*

GKI ECONOMIC RESEARCH CO.

1092 Budapest, Ráday u. 42-44.

Phone: +36 1 318 1284

E-mail: gki@gki.hu

For more information: Andras Vertes, Laszlo Akar, Gabor Karsai