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GDP GROWTH PROBABLY ACCELERATED SLIGHTLY IN THE LAST QUARTER OF 2017

Similarly to 2017, the Hungarian economy is expected to grow at a rate close to 4 per cent in 2018. Although this rate is well above the EU average of slightly less than 2.5 per cent, it is moderate in the CEE region. The 20 per cent increase in investments in 2017 will slow down to about half of it this year, whereas the rise of consumption over 4 per cent will essentially remain in 2018 as well. However, the rate of the expansion of exports will be closer to that of imports. Incoming EU transfers will rise. Inflation will accelerate somewhat.

The growth rate of the Hungarian economy in the fourth quarter of 2017 was likely to be slightly faster than 3.8 per cent in the first three quarters. The average rate of increase in industrial production and construction as well as in retail sales was higher in October and November 2017 than in the previous nine months. The almost 30 per cent increase in construction in 2017 is clearly unrepeatable in 2018. The two and a half year long stagnation of the automotive industry, the former driving force of growth, poses a risk. Retail sales grew by almost 5 per cent in 2017. Although this rate may decrease slightly due to the slowdown in the increase of wages, it might be partially offset by more courageous spending and borrowing.

Gross earnings rose very rapidly in the first eleven months of 2017, by nearly 13 per cent (by 11.5 per cent in business and by 16 per cent in the public sector). The earnings of those employed in public workfare schemes rose only by 3.5 per cent. Real earnings increased by more than 10 per cent. The minimum wage increased by 15 per cent in 2017, whereas it goes up by "only" 8 per cent in 2018. Although this will have a smaller impact on wage increases in 2018, labour shortages and the election year still have significant effects on them. As a result, gross earnings will rise by at least 7 per cent in 2018, and real earnings by 4-5 per cent. The unemployment rate could fall below 4 per cent by the end of 2017, whereas the number of those employed in public workfare schemes decreased by tens of thousands. 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. Almost two-thirds of construction companies and more than one third of enterprises in services and industry indicated that labour shortage posed a problem for them. However, half of the latter companies complained about the lack of skilled labour.

Consumer prices increased by 2.4 per cent on an annual average in Hungary in 2017 (by 2.1 per cent y-o-y in December), by about 0.5 percentage points faster than the EU average. Inflation may be close to 3 per cent in 2018, whereas no further acceleration can be expected in the EU. Although the spectacularly rapid wage increases have barely affected the domestic price level until now, they have inflationary impact originating in both costs and demand.

The general government deficit in cash flow terms (excluding local governments) reached almost HU2,000bn in 2017. This is a consequence of the erratic arrival of EU transfers and the high amount of budgetary advance payments to beneficiaries. The general government deficit according to the European methodology (for example, the budgetary advance payment of EU transfers is not included in it) is expected to be around 2 per cent of GDP. Although this is lower than forecast, it is higher than the 1.2 per cent average deficit expected in the EU. In addition, while this represents a 0.5 percentage point

improvement over 2016 in the EU, it reflects stagnation in Hungary at best. The Hungarian budget plan forecasts a deficit of 2.4 per cent of GDP in 2018, a figure higher than expected in 2017, whereas some further reductions can be anticipated in the EU.

THE FORECAST OF GKI FOR 2018

	Description	2015	2016	2017 01-11	2017 estimate	2018 forecast
1	GDP (%)	103.4	102.2	103.8**	**103.8**	**103.8**
2	Industrial production (%)	107.5	100.9	105.2	**105.5**	**105**
3	Investments (%)	107.1	85.1	122.6**	**120**	**109**
4	Construction services (%)	103.0	81.2	128.7	**130**	**110**
5	Retail trade turnover (%)	105.8	104.7	104.7	**105**	**104**
6	Exports (current prices in euro, %)	107.0	103.4	108.8	**109**	**109**
7	Imports (current prices in euro, %)	104.6	102.3	111.9	**112**	**111**
8	Foreign trade balance (EUR billion)	8.6	9.7	7.7	**8.5**	**7.5**
9	Balance of the current and capital account (EUR billion)	8.9	7.0	5.4**	**7.7**	**7.5**
10	Average exchange rate of euro (in HUF)	309.9	311.5	309.2***	**309.2*** **	**310**
11	General government deficit* (HUF billion)	1218.6	848.3	1974***	1974***	**1000**
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	102.1***	**102.1*** **	**103**
15	Rate of unemployment (at the end of the period, %)	6.2	4.4	3.8****	**3.8**	**3.8**

** Cash flow basis, without local governments*
*** First three quarters of 2017*
**** Actual figure, year*
*** Sept-Nov 2017*

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