5 MARCH 2018

INVESTMENTS ROSE RAPIDLY IN 2017

In 2017 the Hungarian economy expanded faster than expected, by 4 per cent. Although this rate is much higher than the EU average of 2.6 per cent, it is only moderate in the CEE region. The GDP growth rate may be close to 4 per cent in 2018 as well. The 17 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 unchanged. Although developments in the general government differed significantly from those envisaged in the budget in 2017, there was no review of the 2018 budget. As a result, probably the third highest deficit in the EU (2.4 per cent of GDP) is planned in Hungary in 2018, without sufficient reserves for the future.

Although the expansion of EU transfers to the Hungarian economy and the purchasing power of households will slow down markedly in 2018, their rate of increase remains fast. As a result of this, the growth rate of investments will be roughly halved. This will primarily affect public investments that increased by nearly 60 per cent in 2017. However, the growth rate of the business sector will not reach its 2017 figure of 14 per cent either. The growth rate of gross earnings will also slow down significantly, from 13 per cent in 2017 to 7 per cent in 2018, entailing a fast growth rate of real earnings (4-5 per cent, half of the rate of the previous year). Although the minimum wage will increase “only” by 8 per cent in 2018 after 15 per cent last year, exerting a smaller impact on wage increases in 2018, labour shortages and the election year will still have significant effects on them. The inflation rate was only 2.1 per cent in January 2018 compared to last year’s 2.4 per cent annual average. The rate of inflation may be close to 3 per cent in 2018. Although spectacularly rapid wage increases have barely affected the domestic price level until now, they have inflationary impact originating in both costs and demand. In the event of stagnation of world energy prices, the acceleration of inflation may be smaller.

Industrial production is expected to be around last year’s rate of 5 per cent. The 30 per cent jump of construction in 2017 followed a major downturn. Its growth rate in 2018 is expected to be 10 per cent. 14.4 thousand new homes were built in 2017, and their number may reach 20 thousand in 2018. However, last year’s agricultural downturn may be followed by an increase in case of average weather in 2018. Despite the slowdown in earnings growth, retail sales will decelerate only slightly and their rate will remain around last year’s 5 per cent, partly as a result of households’ growing spending and borrowing. The unemployment rate fell below 4 per cent by the end of 2017, and employment increased by 1.6 per cent despite a decline in the number of those participating in public workfare schemes. This will slow down in 2018 despite relatively rapid GDP growth and existing labour shortages. The number of available workers is limited, due to partly the poor training structure, partly foreign employment, and partly the poor work culture of certain strata.

The general government deficit was 1.9 per cent of GDP in 2017, lower than the projected 2.4 per cent. At the same time, due to the widespread budgetary advance payment of EU transfers, the cash-flow deficit was almost 70 per cent higher than anticipated. Despite the significantly different revenue and expenditure processes and the allegedly changed governmental perspectives, there has not been any public review of the 2018 budget approved last spring. No wonder that Hungary is the last in the EU as far as fiscal policy transparency is concerned. Thus, a sharp rise of the general government deficit to GDP ratio is currently projected in 2018, by 0.5 percentage points, to 2.4 per cent. According to EU projections, only the Romanian and French general government deficit will be higher in the EU. The government debt relative to GDP decreased significantly in 2017, by 1.8 percentage points, at a somewhat smaller rate than projected. With the inclusion of Eximbank, the debt ratio was 74 per cent. The general government deficit is expected to be around 2.5 per cent of GDP in 2018, and the government debt ratio will decrease to 73 per cent.

THE FORECAST OF GKI FOR 2018

	Description	2015	2016	2017	2018 forecast
1	GDP (%)	103.4	102.2	**104.0**	**103.8**
2	Industrial production (%)	107.5	100.9	**104.8**	**105**
3	Investments (%)	107.1	85.1	**116.7**	**109**
4	Construction services (%)	103.0	81.2	**129.6**	**110**
5	Retail trade turnover (%)	105.8	104.7	**104.9**	**104**
6	Exports (current prices in euro, %)	107.0	103.4	**108.2**	**109**
7	Imports (current prices in euro, %)	104.6	102.3	**111.1**	**111**
8	Foreign trade balance (EUR billion)	8.6	9.7	**8.1**	**7.5**
9	Balance of the current and capital account (EUR billion)	8.9	7.0	**7.7****	**7.5**
10	Average exchange rate of euro (in HUF)	309.9	311.5	**309.2**	**312**
11	General government deficit* (HUF billion)	1218.6	848.3	1974	**1400**
12	Index of average gross earnings	104.2	106.1	**112.9**	**107**
13	Consumer price index	99.9	100.4	**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**	**103**
15	Rate of unemployment (at the end of the period, %)	6.2	4.4	**3.8**	**3.8**

** Cash flow basis, without local governments*
***GKI estimates*

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