



2 MAY 2018

FOR THE TIME BEING, GDP GROWTH IS RELATIVELY FAST

Being at the helm for eight years, Fidesz-KDNP won a two-thirds majority in the parliamentary elections again on April 8th. This is expected to entail a stronger establishment of the one-centred Hungarian political model than before. The continued deterioration of competitiveness, the deepening conflicts with the EU and the uncertain decline in EU transfers after 2020 pose great challenges to the sustainability of this policy. The idea of drastically stimulating corporate and retail borrowing instead of strengthening competitive market conditions seems to be a new problem rather than a solution. However, the GDP growth rate may be close to 4 per cent in 2018.

Figures for the first two months of 2018 indicate stronger economic trends than last year. However, growth rates of industry, construction and retail trade in February were already lagging behind those in January. In 2018, slowdown can be expected especially in construction and retail trade due to the rising statistical base of the previous year. During the first two months of 2018 exports expanded faster than imports. However, as a result of domestic consumption increasing faster than GDP (investments will rise by 7 per cent, consumption by around 4 per cent) imports will grow more rapidly than exports in 2018. Thus the otherwise very high foreign trade surplus will be lower than last year.

The growth rate of gross earnings will slow down from 13 per cent in 2017 to 10 per cent in 2018, entailing a very fast growth rate of real earnings of about 7 per cent (less than its two-digit increase last year). Although the minimum wage will go up “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. In the first two months of 2018 the wage increase in the private and public sectors was similar (without those employed in public workfare schemes). Unemployment fell by 0.7 percentage points to 3.9 per cent in one year. In addition, the number of those employed in public workfare schemes decreased by more than 20 per cent. The unemployment rate is one of the lowest in the EU. However, if those employed in public workfare schemes were considered unemployed (their number is almost equal to the number of statistically unemployed people), the Hungarian unemployment rate would be around 7.4 per cent, higher than the EU average.

After its huge surplus of EUR6.8bn in 2016, the current account balance dropped to EUR3.6bn in 2017 due to mainly a fall in the foreign trade surplus, and it will probably shrink further, to EUR2.5bn in 2018. Although the external financing capacity declined to EUR5.1bn in 2017 from EUR7bn in 2016, it will recover in 2018 its 2016 level due to the inflow of EU transfers. FDI in Hungary has increased by only EUR3bn since the beginning of 2008. Net FDI dropped from 50 per cent of GDP before the crisis to around 45 per cent in 2016, and no increase can be expected in 2018 either.

In the first quarter of 2018, a cash-flow deficit of HUF872bn accumulated in the general government, almost 64 per cent of the annual target, mainly due to budgetary advance payments of EU transfers. Although this does not fundamentally jeopardize the general government deficit in terms of GDP as calculated by EU methodology, it may threaten the sufficient reduction of the

government debt. The general government deficit is expected to be around 2.5 per cent of GDP in 2018, and the government debt ratio will decrease by about 0.5 percentage points, to 73 per cent.

THE FORECAST OF GKI FOR 2018

	Description	2015	2016	2017	2018	
					01-02	forecast
1	GDP (%)	103.4	102.2	104.0	-	103.8
2	Industrial production (%)	107.5	100.9	104.8	105.4	105
3	Investments (%)	107.1	85.1	116.7	-	109
4	Construction services (%)	103.0	81.2	129.6	133.5	110
5	Retail trade turnover (%)	105.8	104.7	104.9	107.2	104
6	Exports (current prices in euro, %)	107.0	103.4	108.2	107.5	109
7	Imports (current prices in euro, %)	104.6	102.3	111.1	106.8	111
8	Foreign trade balance (EUR billion)	8.6	9.7	8.1	1.5	7
9	Balance of the current and capital account (EUR billion)	8.9	7.0	5.1	-	7
10	Average exchange rate of euro (in HUF)	309.9	311.5	309.2	311.0**	312
11	General government deficit* (HUF billion)	1218.6	848.3	1974	871.9**	1400
12	Index of average gross earnings	104.2	106.1	112.9	112.9	110
13	Consumer price index	99.9	100.4	102.4	102.0**	102.7
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	100.9	101.8	102.1	102.0**	103
15	Rate of unemployment (at the end of the period, %)	6.2	4.4	3.8	3.9**	3.8

* Cash flow basis, without local governments

** January-March 2018

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