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NO PROGRESS WITHOUT INVESTMENTS

According to the forecast of GKI, following a temporary rapid GDP growth in 2014, the dynamics of the Hungarian economy set to decelerate in 2015. GDP grew by 3.5 per cent in the first quarter of 2015, by 2.7 per cent in the second one and by 2.3 per cent in the third one. In the next quarters GDP is likely to increase by about 2 per cent. GKI forecasts Hungary's GDP to grow by 2.7 per cent in 2015 and by about 2 per cent in 2016. External and internal equilibria are likely to develop favourably. Nevertheless, due to the deficiencies of economic policy in general and that of the government policy vis-à-vis banks in particular, Hungary's upgrading by international credit rating agencies is still some time ahead.

In its latest forecast the European Commission projects slightly lower GDP growth rates this autumn than it did last spring totalling 2.9 per cent in 2015 and 2.2 per cent in 2016. Nevertheless, these projections are somewhat higher than those of GKI. According to the evaluation of the Commission, Hungary's GDP growth is too closely tied to the absorption of EU funds. Since the inflow of EU funds is expected to decrease, until the end of 2016 net exports and consumption will be responsible for GDP growth. Following stagnation this year, investments are likely to fall in 2016. In the third quarter of 2015, Hungary's GDP mounted more rapidly than the EU average, but regarding the Central and Eastern European competitors, Hungary outperformed only Estonia and Lithuania. The GDP growth rate of Slovakia, Romania and Poland was by more than 1 percentage point higher than that of Hungary. The corresponding figure of the Czech Republic exceeded that of Hungary by more than 2 percentage points.

Due to the deceleration of GDP growth in China that tends to be a lasting trend, the global economy is likely to develop at a more modest rate than projected earlier. Partly because of this and partly because of the probably weak performance by the motor industry due to the Volkswagen scandal, the German economy is expected to lose momentum and its locomotive role in the EU will somewhat weaken. Its GDP is projected to grow somewhat slower than the EU average. This trend is unfavourable from the point of view of Hungary's exports whose growth rate is highly dependent on the actual state of the German business cycle. The growth rate of Hungarian exports is restrained by the fact that few new industrial capacities have been built and the volume of exportable agricultural produce decreased. With the fall of investments, the growth rate of imports, too, is contracting, although at a slower rate than that of exports.

In the first three quarters of 2015, gross wages went up by 3.9 per cent; and more or less the same growth rate is expected in the whole year. Due to the most probably stagnating price level, real earnings are expected to expand at a similar rate. In 2016 the rate of increase of gross wages is predicted to accelerate to 4.5 per cent and the rate of inflation to about 1.7 per cent. The 1 percentage point reductions of the personal income tax rate will partly counterweight the rise of the inflation rate. Therefore, real earnings are expected to be up by 3.5-4 per cent again.

In October the surplus of the general government amounted to HUF138 billion thanks to the inflow of several formerly suspended EU transfers. The attainment of the deficit targets of 2.4 per cent in 2015 and 2 per cent in 2016 relative to GDP is uncertain, but the actual figures are likely to be close to the envisaged ones. The European Commission projects even lower deficit relative to

GDP amounting to 2.3 per cent in 2015 and 2.1 per cent in 2016. External equilibria are expected to develop very favourably. In the first three quarters, the foreign trade surplus totalled EUR6.1 billion, almost the same as that of the whole year in 2014. In the first quarter the current account surplus and the inflow of EU transfers, too, increased. In 2016, both the foreign trade and the current account surplus are projected to grow further. However, the inflow of EU transfers is predicted to fall substantially. Although EU transfers are expected to rise from 2017 on again, their inflow tends to be terminated almost completely in their present form after 2020. This would imply the drop-out of the major driving force of Hungary's GDP growth.

THE FORECAST OF GKI FOR 2015-2016

Description	2013	2014	2015. I-IX.	2015	2016
				forecast	
1. GDP (%)	101.9	103.7	102.8	102.7	102
2. Industrial production (%)	101.4	107.6	106.7	106.5	5.0
3. Investments (%)	107.2	111.2	99.7	100	95
4. Construction services (%)	109.6	114.2	104.7	103	102
5. Retail trade turnover (%)	101.9	104.1	105.9	105	102
6. Exports (current prices in euro, %)	101.7	103.9	107.2	106.5	104
7. Imports (current prices in euro, %)	102.0	104.3	105.9	105	103
8. Foreign trade balance (EUR billion)	6.6	6.3	6.1	8	9
9. Balance of the current and capital account (EUR billion)	7.6	6.3	4.8**	8.0	6.5
10. Average exchange rate of euro (in HUF)	296.9	308.7	309.2***	310	320
11. General government deficit* (HUF billion)	929.2	825.7	816.2***	900	700
12. Index of average gross earnings	103.4	103.0	103.9	103.7	104.5
13. Consumer price index	101.7	99.8	99.8***	100	101.7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	100.4	99.3	100.1***	101	102
15. Rate of unemployment (at the end of the period, %)	9.1	7.1	6.4****	6.9	6.8

* Cash flow basis, without local governments

** First half of 2015

*** January–October 2015

**** August–October 2015

Sources of actual data: CSO, NBH, NGM

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