



ACCELERATING BUT MODEST GROWTH

Hungary's GDP growth has been low in 2016 compared to other countries in the CEE region or to its growth rate in the previous year. However, some acceleration of the rate can be expected in the second half of the year. Internal and external equilibria are very favourable, and inflation almost ceased. However, in the second half of 2016 the general government deficit might be slightly higher (partly in connection with the boosting of the economy) and the external surplus might be lower (due to declining improvement in the terms of trade) than in the first half of the year. In the meantime, price increases may start slowly.

The Hungarian economy grew by only 1.7 per cent in the first half of 2016 (by 3.1 per cent in the first half of 2015). In addition, according to statistics used in the EU (which, for example, takes into account the different number of working days in a quarter) GDP growth was only 1.2 per cent in the first half of the year. Therefore, though growth in the second quarter was substantially higher than in the first one, and further acceleration can be expected, it is extremely unlikely that the annual growth rate will reach 2.5 per cent as expected by the government or 2.8 per cent as projected by the National Bank of Hungary. Although GKI still maintains its GDP growth forecast of 2 per cent for 2016, a lower growth rate is much more probable than higher. In the first half of the year Hungary's GDP growth lagged behind most of its regional competitors (the Polish rate was 2.8 per cent, the Slovak 3.7 per cent and the Romanian 5 per cent) and the EU average (1.8 per cent) as well.

In the first half of the year industrial production was 2.3 per cent higher than a year ago, and in June the level of production was barely higher than in December last year. In the first half of 2016 the fall in construction output exceeded 25 per cent. However, it has already been increasing since April compared to the previous month. In the second half of the year better performance can be expected in both sectors compared to the first half. Retail sales rose by more than 5 per cent, and a similar rate can be expected for the entire year. Exports in euro terms grew by 2 percentage points faster than imports in the first half of 2016. Although the terms of trade improved by 2.5 per cent in the first five months, the improvement is expected to be slower during the rest of the year (due to the inclusion of last year's drop in global energy prices into the statistical base).

Gross earnings increased by 6 per cent in the first six months of 2016, and real earnings by 7.5 per cent. Real earnings grew by 7 per cent in the private sector and by 12 per cent in the public sector without those employed in public workfare schemes. The price level remained basically unchanged in the first seven months, and the annual average rate of inflation will probably be around 0.5 per cent. Real earnings are expected to increase by close to 7 per cent in 2016. All this may result in the acceleration of the expansion of consumption that was up by 4 per cent in the first quarter.

In the past months, economic policy has set to change implicitly aiming at the deterioration of disequilibria. Based on the favourable figures at the beginning of the year, the government modified the 2016 budget in June by distributing additionally about HUF500bn. The government promised a package of measures to stimulate economic growth by the autumn. In addition, it will have unavoidable expenditures (due to, for example, the repeatedly renewing debts of hospitals). Therefore, although the general government deficit was very favourable in the first seven months, it is likely to be higher than planned in 2016 (2.3 per cent instead of 2 per cent). GKI reckons with a modest reduction of government debt relative to GDP with a ratio of about 75 per cent since the advance payments needed to accelerate the absorption of EU funds by the budget can only partially be offset by the portion of land auction revenues earmarked for the reduction of debt. In addition, GDP will be lower than projected by the government.

FORECAST OF GKI FOR 2016

Description		2013	2014	2015	01-06 2016	2016 forecast
1.	GDP (%)	101.9	103.7	102.9	101.7	102
2.	Industrial production (%)	101.1	107.7	107.5	102.3	103.5
3.	Investments (%)	107.3	111.2	101.9	92.2**	92
4.	Construction services (%)	109.7	113.4	103.0	74.7	85
5.	Retail trade turnover (%)	101.6	105.2	105.8	105.2	105
6.	Exports (current prices in euro, %)	101.7	103.9	107.4	103.5	104
7.	Imports (current prices in euro, %)	102.0	104.3	105.6	101.5	103
8.	Foreign trade balance (EUR billion)	6.6	6.3	8.1	5.3	9
9.	Balance of the current and capital account (EUR billion)	7.6	6.0	9.5	4.3	8.0
10.	Average exchange rate of euro (in HUF)	296.9	308.7	309.9	312.9***	315
11.	General government financing needs* (HUF billion)	929.2	825.7	1218.6	464.8***	1100
12.	Index of average gross earnings	103.4	103.0	104.2	106.0	106
13.	Consumer price index	101.7	99.8	99.9	100.1***	100.5
14.	Consumer price index at the end of the period (corresponding month of the previous year=100)	100.4	99.3	100.9	99.7***	101
15.	Rate of unemployment (at the end of the period, %)	9.1	7.1	6.2	5.1****	5.1

* Cash flow basis, without local governments

** First quarter of 2016

*** January-July 2016

**** Second quarter of 2016

Sources of actual data: CSO, NBH, NGM

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