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GDP MAY GROW BY AROUND 3 PER CENT IN 2017

After its 2 per cent increase in 2016, Hungarian GDP is expected to grow by around 3 per cent in 2017. The significant decline in investments in 2016 will be followed by a noticeable growth in 2017 mainly due to the restart of the inflow of EU transfers, while the increase of consumption, which was very rapid last year, will continue similarly. However, the growth rate of imports will only be 2 percentage points faster than that of exports, and the terms of trade will stagnate at best. Inflation is going to pick up. Although economic indicators are expected to be favourable for 2017, there are no signs of any preparation for the post-2020 period following the phasing out of EU transfers.

In addition to political risks like the refugees' problem, Russian foreign policy and Turkey's position, there are a number of uncertainties for the global economy including the actual economic policy of Trump and the implementation of Britain's departure from the EU. Although American recovery plans have been well received by international markets, the implementation of protectionist promises may hinder the previously anticipated expansion of global trade. In addition, the international rise of populist political forces seeking to curb globalization may worsen the position of the EU as a single market, and thus the positions of its member states as well. Despite the apparent increase in the room of manoeuvring for Hungary, this will be unfavourable for the export-oriented Hungarian economy. In addition, the period of falling energy prices and interest rates, which was very favourable for Hungary, is expected to come to an end.

Industrial production, which slowed down last year, will be accelerating in 2017, and last year's sharp decline in construction output will turn into an increase this year. The expansion of trade may accelerate slightly further, and the recovery of the financial sector will begin slowly. These changes are supported by the improvement of various sectoral sentiment indices as well as the increase in the stock of incoming orders, by the ending of last year's contraction in the corporate loan portfolio, and by an increase in retail real estate loans. In agriculture, however, stagnation is more likely after last year's substantial increase in production.

Investments will increase in 2017 due to the rise in EU transfers, strengthened by a revival in housing construction. Gross wages are expected to accelerate in 2017 due to labour shortages and the forced increase of the minimum wage by 15-25 per cent. Taking into account the rise in inflation from 0.4 per cent to over 2 per cent, real earnings and consumption are expected to grow in 2017 similarly to 2016 (around 7 per cent and 4-5 per cent, respectively). Although the rise in labour costs will be tolerable for medium and larger firms, it will cause serious difficulties for small companies and sole proprietorships, leading to a deterioration in competitiveness and a search for loopholes. Investments aiming at replacing labour are expected to increase, which is justified; however, in many areas this will further hinder the employment of unskilled people.

The very high surplus in the foreign trade turnover will deteriorate due to imports rising faster than exports and the ending of the improvement in the terms of trade. However, this loss will be offset by the inflow of EU transfers, thus the surplus in the current and capital account will remain very high in 2017 as well. Although an increase in government spending can be anticipated, the general government deficit remains below 3 per cent of GDP in 2017, whereas the nearly 1 percentage point annual decline in the general government debt will be in line with EU requirements.

THE FORECAST OF GKI FOR 2017

	Description	2014	2015	01-11 2016	2016 estimate	2017 forecast
1.	GDP (%)	104.0	103.1	102.1**	102	103
2.	Industrial production (%)	107.7	107.5	101.0	101	103.5
3	Investments (%)	119.3	103.8	85.7**	90	105
4	Construction services (%)	113.4	103.0	80.8	80	110
5	Retail trade turnover (%)	105.2	105.8	104.7	105	106
6	Exports (current prices in euro, %)	104.0	107.0	102.7	103	106
7.	Imports (current prices in euro, %)	104.7	104.6	101.0	102	108
8	Foreign trade balance (EUR billion)	6.3	8.6	9.4	10	8.5
9	Balance of the current and capital account (EUR billion)	6.1	8.7	5.7**	7.5	7.5
10	Average exchange rate of euro (in HUF)	308.7	309.9	311.5***	311.5***	315
11	General government deficit* (HUF billion)	825.7	1218.6	848.3***	848.3***	1300
12	Index of average gross earnings	103.0	104.2	106.2	106	109
13	Consumer price index	99.8	99.9	100.4***	100.4***	102.3
14	Consumer price index at the end of the period (Corresponding month of the previous year=100)	99.3	100.9	101.8***	101.8***	102.5
15	Rate of unemployment (at the end of the period, %)	7.1	6.2	4.5****	4.6	4.5

* *Cash flow basis, without local governments*
** *First three quarters of 2016*
*** *Actual figure, year*
** *September–November 2016*
Sources of actual data: CSO, NBH, NGM

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