



6 MARCH 2017

## INVESTMENTS OF THE PUBLIC SECTOR FELL BY MORE THAN 60 PER CENT IN 2016

Hungarian GDP grew by 2 per cent in 2016, as predicted by GKI. GDP is expected to mount by 3 per cent or slightly more in 2017. The 20 per cent decline in investments in 2016 will be followed by a rebound of about 8 per cent in 2017 mainly due to the restart of the inflow of EU transfers, whereas the increase of consumption, which was very rapid last year, may accelerate slightly further. However, the growth rate of imports will be faster than that of exports, and the terms of trade will stagnate at best. Inflation is going to pick up. Although internal and external equilibria will deteriorate somewhat, they remain very favourable.

The growth rate of the Hungarian economy was well below the EU average in the fourth quarter of 2016, and it was the lowest rate in the CEE region. The growth rate in 2016 was the same as the EU average, surpassing only two Baltic countries. GDP growth rates in Romania and Bulgaria were higher than in Hungary (by about 3 and 2 percentage points, respectively), and the Polish and Slovak rates also exceeded the Hungarian rate by more than 1 percentage point. The growth rate in the Czech Republic was 0.5 percentage points higher than in Hungary. Since the growth of the Hungarian economy is very largely dependent on EU transfers, their restart in 2017 is expected to result in a growth rate faster than the EU average, similar to other countries in the CEE region. 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.

Although US recovery plans have been well received by financial markets, the implementation of protectionist promises may hinder the previously anticipated expansion of global trade. The concept of a multi-speed EU is coming to the fore again. The Hungarian government emphasizes the importance of the nation state and the dark side of integration. However, in the long run isolation and exclusion from the decision-making circles of the EU are unfavourable for the export-oriented Hungarian economy, notwithstanding the apparent widening of the national room for manoeuvring.

Growth rates are expected to accelerate in all relevant sectors in 2017, with the exception of agriculture. Following a decline last year, significant growth can be expected in construction. Real earnings are predicted to increase by around 7 per cent in 2017, similarly to last year, whereas consumption growth may accelerate slightly, to around 5 per cent. Investments fell by nearly 10 per cent in the corporate sector in 2016, and they plummeted extremely in the public sector, by more than 60 per cent. Growth can be expected in both areas in 2017.

Inflation rose by 2.3 per cent in January, similarly to its rise in the EU (though exceeding it), mainly due to the increase in global energy prices. The big question is how the rapid growth of domestic purchasing power will affect the rate of inflation. Since the National Bank of Hungary is interested in weakening the forint, and the interest rate increases of the Fed may weaken the currencies of riskier countries, some weakening of the forint can be expected during the year (the exchange rate of the euro to the forint will be about HUF315 in 2017 after last year's HUF311.5). The very high surplus in foreign trade will decrease in 2017. However, this loss will be offset by the inflow of transfers (remittances from those working abroad and EU transfers), thus the surplus in the current and capital account will remain very high. 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	2016	2017
				forecast
1. GDP (%)	104.0	103.1	102.0	103
2. Industrial production (%)	107.7	107.5	100.9	103.5
3. Investments (%)	119.3	103.8	80.0	108
4. Construction services (%)	113.4	103.0	85.1	110
5. Retail trade turnover (%)	105.2	105.8	104.5	106
6. Exports (current prices in euro, %)	104.0	107.0	102.9	106
7. Imports (current prices in euro, %)	104.7	104.6	101.5	108
8. Foreign trade balance (EUR billion)	6.3	8.6	9.9	8.5
9. Balance of the current and capital account (EUR billion)	6.1	8.7	7.5**	7.5
10. Average exchange rate of euro (in HUF)	308.7	309.9	311.5	315
11. General government deficit* (HUF billion)	825.7	1218.6	848.3	1300
12. Index of average gross earnings	103.0	104.2	106.1	109
13. Consumer price index	99.8	99.9	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	102.5
15. Rate of unemployment (at the end of the period, %)	7.1	6.2	4.5	4.5

\* Cash flow basis, without local governments

\*\* GKI estimates

Sources of actual data: CSO, NBH, NGM

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