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A VERY FAST GROWTH CAN BE EXPECTED IN 2018, IT WILL SLOW DOWN NOTICEABLY NEXT YEAR

While most forecasters project a GDP growth rate of 4-4.5 per cent for 2018, they—with the exception of the government—expect only 3-3.5 per cent for next year. (GKI projects at least 4.2 per cent this year, and only about 3.2 per cent next year.) The rate of increase in investments financed by EU transfers and in household consumption, boosted by the elections as well, is expected to slow down. In addition, the trends in European business activity are also uncertain. For the time being, fiscal and monetary policy is loose. Relations between Hungary and the EU are tense.

Of the countries in the CEE region, only the Polish growth rate was higher than the Hungarian one. Former trends in the Hungarian economy of the first half of the year have continued in the past few months. The growth rates of industrial production and retail sales have not changed significantly. The soaring of construction has even strengthened, whereas the increase in the performance of commercial lodgings slowed down. The growth rate of gross earnings is decreasing slowly. Inflation is accelerating, thus the growth rate of real earnings is expected to be slightly lower than last year's double-digit rate; however, it remains very high (7-8 per cent). This will decrease to 3-4 per cent next year, due to mainly the slowdown in wage growth; in spite of this, it remains high. Inflation had accelerated for the seventh month in September, reaching 3.6 per cent. A similar rate is expected for the rest of this year and next year, due to, among others, the weak exchange rate of the forint. While in the first quarter of 2018 one euro was worth an average of only HUF311, in the third quarter of the year it went up to HUF324.

Compared to Hungary, the rate of rise in labour costs and inflation was higher only in Romania in the EU. Although unemployment is still decreasing compared to the same period of the previous year, its moderation stopped compared to the previous months. The number of those involved in public workfare schemes is decreasing; this is a favourable trend. The official unemployment rate is the fourth lowest in the EU, after the Czech Republic, Germany and Poland. The number of those involved in public workfare schemes is almost the same as those of unemployed, and counted both together, the Hungarian unemployment rate would total around the EU average.

The general government deficit calculated according to the EU methodology has been very favourable: it was only 0.1 per cent of GDP in the first half of 2018 (as this does not include, among others, the advancement of EU transfers). The cash-flow deficit of the general government was close to HUF1,500bn in the first nine months of 2018, almost 10 per cent higher than foreseen for the whole year. However, some surpluses emerged in September due in part to the inflow of EU funds, and in part to the obligatory allocation of advance payments for local governments in treasury accounts. Tax revenues have been favourable. The huge shortage is primarily due to the prepayments of EU transfers; however, the date of their accrual is very uncertain. In addition, there have been serious malfunctions and liquidity problems in a number of public sector segments, such as health care, education and waste collection. The general government deficit according to the EU methodology that does not take into account the advance payments of EU transfers is likely to be somewhat smaller than planned (but above its 2017 level), around 2.2 per cent of GDP. As a result of the high cash-flow deficit, the government debt relative to GDP is projected to decline less than expected by the EU and remains above 73 per cent. The general government deficit relative to GDP is planned to be reduced to 1.8 per cent in 2019, when economic growth will slow down and EU and municipal elections will be held. GKI believes that a higher deficit is likely; however, the general government debt relative to GDP may decline.

Forecast of GKI for 2018-19

	Description	2016	2017	01-08 2018	2018 forecast	2019 forecast
1	GDP (%)	102.3	104.1	104.7**	**104.2**	**103.2**
2	Industrial production (%)	100.9	104.8	103.6	**104**	**104.5**
3	Investments (%)	88.3	118.2	115.8**	**112**	**105**
4	Construction services (%)	81.2	129.6	122.6	**117**	**105**
5	Retail trade turnover (%)	104.7	104.9	106.7	**106.5**	**104**
6	Exports (current prices in euro, %)	103.4	108.2	105.1	**105**	**105**
7	Imports (current prices in euro, %)	102.3	111.1	106.7	**106.5**	**106**
8	Foreign trade balance (EUR billion)	9.7	8.1	4.6	**7**	**6.5**
9	Balance of the current and capital account (EUR billion)	7.0	5.1	3.2**	**6**	**6.5**
10	Average exchange rate of euro (in HUF)	311.5	309.2	317.4***	**320**	**327**
11	General government deficit* (HUF billion)	848.3	1974	1496.5***	**1500**	**1,000**
12	Index of average gross earnings	106.1	112.9	111.8	**111**	**107**
13	Consumer price index	100.4	102.4	102.7***	**103**	**103.5**
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	101.8	102.1	103.6***	**103.5**	**103.7**
15	Rate of unemployment (at the end of the period, %)	4.4	3.8	3.7****	**3.7**	**3.6**

** Cash flow basis, without local governments*
*** First half of 2018*
**** January–September 2018*
***** June–August 2018, average*

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