4 MARCH 2019

TSUNAMI OF GOVERNMENT PROGRAMMES

The Hungarian economy grew by 4.9 per cent in 2018, and it was probably the second fastest growth rate in the EU after Poland. In the past decades, faster growth was registered in Hungary only once, in 2004. All forecasts expect a significant slowdown in 2019. GKI predicts a rate of around 3.5 per cent. GDP growth in the EU is also slowing down, and the European Commission cut its growth forecast from 2 per cent to 1.5 per cent in 2019, after last year's 2.1 per cent. Although the indicators of economic disequilibria are favourable (two credit rating agencies upgraded Hungary's general government debt), the foreign trade surplus is falling significantly, and inflation and the general government deficit are among the highest in the EU. Over the past few weeks, a tsunami of government programmes swept across the country.

Although the government cut its 2019 growth forecast to 3.9 per cent at the end of 2018, it is still extremely high. Most forecasts, including those of the National Bank of Hungary, are around 3.5 per cent. GDP growth in Hungary was driven by domestic demand in 2018 (having increased by 7 per cent on an annual basis). Consumption increased by 4.6 per cent and gross fixed capital formation by 16.5 per cent. Accordingly, construction soared, the expansion of trade accelerated, whereas industrial production slowed down mainly due to the very modest rise in its exports. Imports of goods and services rose faster (by 7.1 per cent) than exports (by 4.7 per cent).

Although EU transfers are likely to continue to grow in 2019, they will only generate an investment growth of around 7 per cent. The growth rate of gross earnings is slowly but steadily decreasing, in accordance with inflationary trends. As a result, real earnings slowed down to around 8 per cent in the private sector and around 6 per cent in the public sector in 2018 (without those employed in public workfare schemes) from a rate above 10 per cent in 2017. The rate can be expected to total some 5-5.5 per cent in 2019. In addition to dynamic wage growth, the expansion of consumption is supported by the surge in lending. At the end of 2018, the volume of personal loans was 37 per cent higher than a year earlier and that of consumer good loans by 15 per cent. Although this trend is expected to continue, the growth rate of consumption may slow down to around 4 per cent in 2019.

Although core inflation exceeded 3 per cent in January, and the National Bank of Hungary had previously indicated that it would have to start tightening its monetary policy due to this threat, central banks have become more cautious in recent weeks as a consequence of the expected slowdown in global economic growth. However, the Government Debt Management Agency raised interest rates on some government securities at the end of February. The exchange rate of the forint to the euro strengthened by 1.5 per cent compared to the end of 2018. However, it is questionable how the forint will react to the inactivity of the central bank following one of the highest inflation rates in the EU.

In February, the government announced a demographic and family support plan together with a six-point target system, and published its own competitiveness programme simultaneously with the National Bank of Hungary, and also put forward a programme aiming at the protection of the economy. The common feature of the programmes is that they do not or hardly contain an impact analysis and they have not been preceded by discussions with the organisations of the economic participants. The programmes do not address the consequences of the decrease in EU transfers, and most of the proposals are state-centred rather than market-oriented. There is no real commitment to reforming the education system, healthcare and other public services. On the one hand, the focus is on preparing society for future difficulties, and, on the other hand, to counteract this by a variety of attractive goals and concrete ideas, whereas the means and sources of realizing them remain obscure.

FORECAST OF GKI FOR 2019

	Description	2016	2017	2018	2019 forecast
1	GDP (%)	102.3	104.1	**104.9**	**103.5**
2	Industrial production (%)	100.9	104.8	**103.6**	**103.0**
3	Investments (%)	88.3	118.2	**116.5**	**107**
4	Construction services (%)	81.2	129.6	**122.3**	**105**
5	Retail trade turnover (%)	104.7	104.9	**106.0**	**104**
6	Exports (current prices in euro, %)	103.4	108.2	**104.3**	**104**
7	Imports (current prices in euro, %)	102.3	111.1	**106.9**	**106**
8	Foreign trade balance (EUR billion)	9.7	8.1	**6.0**	**4.5**
9	Balance of the current and capital account (EUR billion)	7.0	5.1	**6.3****	**6.5**
10	Average exchange rate of euro (in HUF)	311.5	309.2	**318.9**	**322**
11	General government deficit* (HUF billion)	848.3	1974	**1445.1**	**1000**
12	Index of average gross earnings	106.1	112.9	**111.3**	**109**
13	Consumer price index	100.4	102.4	**102.8**	**103.5**
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	101.8	102.1	**102.7**	**103.5**
15	Rate of unemployment (at the end of the period, %)	4.4	3.8	**3.6**	**3.6**

- *Cash flow basis, without local governments*

** *GKI estimates*

GKI ECONOMIC RESEARCH CO.

1092 Budapest, Ráday u. 42-44.

Phone: +36 1 318 1284 E-mail: gki@gki.hu

For more information: Andras Vertes, Laszlo Akar, Gabor Karsai