



## Forecast for 2020

(A summary of the detailed forecast of GKI Economic Research Co. completed on December 10th)

The growth rate of Hungary's GDP **accelerated to around 5 per cent in 2018 and 2019, one of the fastest in the EU**. Thus, the Hungarian growth rate exceeded all prognoses, including those of the EU and GKI.

The rapid growth can be attributed to the **surge in EU transfers** and the previously favourable **global economic boom** and later the **improvement in industrial output and outstanding services exports** as well as the measures stimulating domestic demand, including **wage agreements and tax cuts**. GKI underestimated the investment and export potential of the business sector.

**From 2020, however, an explicit slowdown** can be expected, which is likely to continue until 2022 (when EU transfers will resume at a lower level). Main reasons of the slowdown include the phasing out of EU transfers, the gradual weakening of the forced increase of wages, the worsening global economic growth, and last but not least, the modest competitiveness of the Hungarian model. According to GKI, **GDP** will grow by 4.9 per cent in 2019 and by 3.2 per cent in 2020, investments by 16 per cent and 5 per cent, and household consumption by 4.5 per cent and 4 per cent, respectively. After its 0.8 per cent growth in 2019, employment will increase only slightly in 2020, by 0.5 per cent. The unemployment rate will remain around 3.5 per cent, which is lower than the EU average even when considering those involved in public workfare schemes as well. **External equilibrium is favourable**, Hungary's external financing capacity is rising from 2 per cent of GDP in 2018 to 2.4 per cent in 2019, and it will drop to 1.7 per cent in 2020 due to rise in the current account deficit and the decrease of EU transfers; however, it will still be favourable. Although the **general government deficit** and the **inflation rate** are quite **high by European comparison**, they remain manageable in the short term. The envisaged budget deficit of 1.8 per cent of GDP in 2019 may be attained. However, the realization of the targeted 1 per cent in 2020 is uncertain, a **rate of about 1.3 per cent seems more likely**. The inflation rate is expected to be 3.2 per cent in 2019, and it will exceed the government's 2.8 per cent forecast in 2020 as well. GKI expects a rate of 3.3 per cent in 2020. The annual average exchange rate of the **forint** to the euro was HUF319 in 2018, it will be HUF325 in 2019, and HUF335-HUF340 in 2020, resulting in around 6 per cent depreciation in the past two years.

There is an open debate within the government that the **main goal of the so-called economy protection programme be the improvement of disequilibria or the stimulation of economic growth**. As Hungarian economic policy has been pro-cyclical for a long time, GKI, similarly to the EU, emphasizes the importance of the improvement of disequilibria, as stated in the 2020 budget law as well. Maintaining the present economic stimulus policy is **risky**, as after 2020, when EU transfers will be significantly reduced and the inflation rate may remain high, there might be **no fiscal and monetary room for manoeuvring** to stop a significant slowdown. The big question is whether the current, largely government-orchestrated investment boom can lead to any **competitive** supply of goods, and to what extent the Hungarian government, now isolated in the EU, will be able to **promote its interests**, when, for example, the content of the next seven-year EU budget will be determined. The most important risks are associated with the Hungarian growth trajectory after 2020: the expected worsening of the uncompetitiveness of the Hungarian model after the contraction or exhaustion of extensive resources (labour, EU transfers) and the continuation of regional backwardness.



### The forecast of GKI for 2020

	2016	2017	2018	2019	2020
	fact			estimate	forecast
GDP	102.2	104.3	105.1	104.9	103.2
• Agriculture (1)	112.6	93.3	104.8	98.0	100
• Industry (2)	101.8	103.2	100.5	105.0	103.5
• Construction (3)	85.0	121.5	118.9	125.0	105
• Trade (4)	100.8	107.4	113.6	107.0	106
• Transport and storage (5)	105.1	102.0	103.7	105.0	103
• Information, communications (6)	104.9	111.3	111.1	106.0	105
• Financial services (7)	101.2	105.6	104.1	103.5	103.5
• Real estate services (8)	103.0	102.5	102.8	103.0	102
• Professional, scientific, technical activities (9)	106.1	109.8	111.6	106.0	104
• Public administration, education, healthcare (10)	101.9	99.3	100.4	99.0	100
• Arts, entertainment (11)	101.1	108.1	103.7	102.0	102
• Core growth (2)+(3)+(4)+(5)+(6)+(7)+(8)+(9)	101.8	106.0	106.5	106.7	104
GDP domestic demand	101.7	105.2	107.3	105.3	103.6
• Private consumption	104.2	104.2	104.0	104.5	104
• Gross fixed capital formation	89.4	118.7	117.1	116	104
Foreign trade in goods					
• Exports	104.4	105.9	104.3	104.5	103
• Imports	104.9	108.3	106.4	106	104
Consumer price index (preceding year = 100)	100.4	102.4	102.8	103.2	103.3
Balance of current and capital account					
• EUR billion	5.2	3.9	2.7	3.5	2.5
• In per cent of GDP	4.5	3.1	2.0	2.4	1.7
Unemployment rate (annual average)	5.1	4.2	3.7	3.5	3.4
General government balance in per cent of GDP (ESA)	-1.6	-2.2	-2.3	-1.8	-1.3

Source: HCSO, GKI