3 FEBRUARY 2020

FAST GDP GROWTH WITH DETERIORATING EQUILIBRIA

The Hungarian economy expanded by a rate of around 5 per cent in 2019, one of the fastest in the EU. Although the October-November data do not yet indicate a slowdown, the deterioration in industrial expectations is a warning signal. The growth rate of construction slowed down markedly, whereas wage growth and retail sales accelerated. At the same time, macroeconomic equilibria were worsening, inflation accelerated, the forint fell spectacularly, the general government deficit went up and the current account turned to deficit. The spreading coronavirus is already exacerbating the global economy through its fear-inducing effect. GKI expects a GDP growth of around 3-3.5 per cent in 2020.

Industrial production increased probably by around 6 per cent in 2019, whereas domestic sales of manufacturing grew slightly faster than exports. As a result of unstable external and slower domestic demand, nearly 10 per cent lower order volumes than last year, and a significant drop in industrial expectations, industrial production is projected to grow by around 4.5 per cent in 2020 despite the entry of some new capacities. The slowdown in construction became markedly visible last year: following an average rate of 25 per cent in the first eleven months, the growth rate dropped to 7 per cent in November, and the volume of contracts was 8 per cent lower than a year earlier. A growth rate of around 5 per cent is expected in construction in 2020. Retail sales, although they were above average in October and November, are also expected to decelerate this year, from 6 per cent last year to around 5 per cent in 2020. This is mainly due to the still rapid but slightly slower increase in real wages than last year: around 5.5 per cent after last year's 7.5 per cent.

The employment rate increased further in 2019, reaching 70.3 per cent in the second half of the year, 0.8 percentage points higher than a year earlier. In addition, the number of those involved in public workfare schemes was decreasing; this was a favourable trend. Unemployment fell from an average of 3.7 per cent in 2018 to 3.4 per cent last year, and it was only 3.3 per cent in the last quarter. This rate is one of the lowest in the EU, and the less than 6 per cent overall rate (taking into account those employed in public workfare schemes) is also below the EU average.

Inflation jumped to 4 per cent in December 2019, making it the highest in the EU, ahead of Romania. The government's 2.8 per cent forecast for 2020 seems to be unrealistic. GKI predicts 3.5 per cent, the same as that of the National Bank of Hungary. Concerns about the growth of the world economy are curbing inflation, whereas rapid wage increases and the weakening of the forint may strengthen it. The forint depreciated by 2.8 per cent compared to the beginning of last year, and by another 2 per cent in January this year. As the National Bank of Hungary is apparently looking to tighten its ultra-loose monetary policy only at the last minute possible, the annual average exchange rate is unlikely to rebound. As a result of the high traditional spending in December (37 per cent of the annual deficit could be attributed to this month), the cash-flow deficit of the general government eventually exceeded the projected figure by more than 20 per cent, and by close to HUF100bn the December estimate of the Ministry of Finance. This makes it unlikely to achieve the 1.8 per cent of GDP deficit target (ESA methodology), which would otherwise be one of the highest in the EU. However, the cash-flow deficit may decline significantly in 2020 as the payment of incoming EU transfers was already partly advanced by the budget. The deficit as a percentage of GDP (according to ESA methodology) may also decrease, even if not to the planned 1 per cent. After 2018, the current account balance remained in deficit in the first three quarters of 2019; however, inflows from EU transfers far outweigh it.

Household consumption is expected to rise by around 4 per cent in 2020 after 4.5 per cent in 2019. Investments will increase by only around 4 per cent in 2020 after last year's 16 per cent, mainly due to the disappearing stimulus effects of EU transfers.

FORECAST OF GKI FOR 2020

	Description	2017	2018	2019		2020
				01–11	estimate	forecast
1	GDP (%)	104.3	105.1	105.1**	**104.9**	**103.2**
2.	Industrial production (%)	104.8	103.6	106.0	**106**	**104.5**
3.	Investments (%)	123.7	119.2	118.0**	**116**	**102**
4.	Construction services (%)	129.6	122.3	124.4	**123**	**105**
5.	Retail trade turnover (%)	104.9	106.0	106.0	**106**	**105**
6	Exports (current prices in euro, %)	108.2	104.2	104.4	**104**	**103**
7	Imports (current prices in euro, %)	111.1	107.3	104.9	**105**	**104**
8	Foreign trade balance (EUR billion)	8.1	5.5	4.9	**5**	**4**
9	Balance of the current and capital account (EUR billion)	3.9	2.7	1.0**	**2**	**1.5**
10	Average exchange rate of euro (in HUF)	309.2	318.9	325.4***	**325.4*****	**338**
11	General government balance (HUF billion)	-1974	-1445.1	-1219***	**-1219*****	**-500**
12	Index of average gross earnings	112.9	111.3	111.2	**111**	**109**
13	Consumer price index	102.4	102.8	103.4***	**103.4*****	**103.5**
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	102.1	102.7	104.0***	**104.0*****	**103.5**
15	Rate of unemployment (at the end of the period, %)	3.8	3.6	3.3****	**3.3******	**3.5**

* *Cash flow basis, without local governments*
** *First three quarters of 2019*
****Actual figure, year*
*****October–December 2019*

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