

UNCERTAINTY IS INCREASING

The Hungarian economy expanded by 4.9 per cent in 2019. It was the second fastest growth rate in the EU after Malta, almost 3.5 percentage points higher than the EU average of 1.5 per cent. If the growth rate will be 3.5 per cent in 2020 as forecast by the Ministry of Finance after taking into account the expected slowdown, the Hungarian growth requirement set by the government of at least 2 extra percentage points compared to 1.4 per cent in the EU can be achieved. At the same time, macroeconomic equilibria are worsening, inflation is accelerating, and the forint is falling spectacularly. The true extent of the short- and long-term effects of the coronavirus cannot be assessed yet.

After the Hungarian silver medal for growth in the EU last year, only the still esteemed fifth place can be expected this year, which will only be enough for the third place in the CEE region, after Romania and Poland, according to the forecast of the EU. The EU forecasts Hungary's growth rate to total 3.2 per cent in 2020, which would not provide the extra Hungarian growth surplus of 2 percentage points compared to the EU average. The GKI also forecasts 3.2 per cent; however, based on the 3-3.5 per cent range, which reflects uncertainty better, the realization of the government's intention might be realistic. Especially since the EU average could easily be lower than projected by the Commission due to, for example, the growing global economic uncertainty caused by the coronavirus, the resulting decline in international tourism, and the negative trends in global supply chains.

Among the drivers of the Hungarian economy, the growth rate of investments is expected to slow down spectacularly (from 14 per cent to 4 per cent); mainly due to the phasing out of the boosting effects of EU transfers. The growth rate of consumption will remain fast, however, it may slow down slightly (from 4.4 per cent to 4 per cent), owing to some moderation in wage growth and rising inflation. Imports are expected to continue to increase by about half a percentage point faster than exports, though their growth rates are expected to decline. On the production side, both industry and construction are decelerating as a result of much lower levels of stock of orders at the end of 2018 and worsening trends in confidence indices. Growth in construction will slow down spectacularly in 2020 (from 21.7 per cent to 5 per cent). The same can be expected in industry (from 5.4 per cent to at least 4 per cent), as both external and domestic demand will be more subdued and global supply chains are also expected to be disrupted. Retail sales are expected to decelerate only slightly (from 6 per cent to 5 per cent), whereas the performance of tourism is more uncertain due to the coronavirus.

Between November 2019 and January 2020 the unemployment rate was 3.4 per cent, 0.3 percentage points lower than in the same period a year ago. However, the rate has only stagnated for over half a year with some fluctuations. The situation regarding the number of employees is similar, and despite a 0.4 per cent increase year-on-year, their number decreased slightly compared to previous months.

Inflation jumped to 4.7 per cent in January 2020, by far the highest rate in the EU with an average of 1.7 per cent and the second highest rate in Romania was only 3.9 per cent. The National Bank of Hungary considers this situation to be largely temporary and it does not seem to plan any substantial changes in its ultra-loose monetary policy. GKI raised its annual average inflation forecast to 4 per cent for this year, which is a significant increase from last year's 3.4 per cent, but slower than the January rate as some transitional factors are expected to disappear. The forint is expected to remain weak permanently.

FORECAST OF GKI FOR 2020

	Description	2017	2018	2019	2020	
					January	forecast
1	GDP (%)	104.3	105.1	104.9	-	103.2
2	Industrial production (%)	104.8	103.6	105.4	-	104
3	Investments (%)	123.7	120.2	113.9	-	104
4	Construction services (%)	129.6	122.3	121.7	-	105
5	Retail trade turnover (%)	104.9	106.0	106.0	-	105
6	Exports (current prices in euro, %)	108.2	104.2	104.0	-	103
7	Imports (current prices in euro, %)	111.1	107.3	104.8	-	104
8	Foreign trade balance (EUR billion)	8.1	5.5	5.0	=	4
9	Balance of the current and capital account (EUR billion)	3.9	2.7	2**	-	2.5
10	Average exchange rate of euro (in HUF)	309.2	318.9	325.4	336.6	338
11	General government balance (HUF billion)	-1974	-1445.1	-1219	-367.0	-500
12	Index of average gross earnings	112.9	111.3	111.4	-	109
13	Consumer price index	102.4	102.8	103.4	104.7	104
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	102.1	102.7	104.0	104.7	103.5
15	Rate of unemployment (at the end of the period, %)	3.8	3.6	3.3	3.4***	3.4

* Cash flow basis, without local governments

** GKI estimates

*** November 2019 – January 2020

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