MINISTRY
FOR NATIONAL ECONOMY

OECD predicts continuing economic expansion in Hungary

In its Economic Outlook 2016, a study on economic trends worldwide, the Organization for Economic Growth and Development (OECD) prognosticates that growth momentum will remain unbroken in Hungary: GDP is forecast to increase by 1.7 percent in 2016, 2.5 percent in 2017 and 2.2 percent in 2018. The report states that the main growth engines will continue to be wage hikes and consumption growth, but employment growth and development projects financed by EU cohesion funds will be also be key to future progress. The OECD points out that Hungary's economic manouvering room has expanded, mainly as the costs of servicing state debt have fallen by 1 percent of GDP compared to 2013.

In the estimate of the organization's analysts, GDP growth will be 1.7 percent this year, 2.5 percent in 2017 and 2.2 percent in 2018. Economic expansion is expected to be mainly fuelled by consumption growth of 3.8 percent in 2017 and 3.7 percent in 2018.

Forecast of OECD for demand, output and prices in Hungarian economy

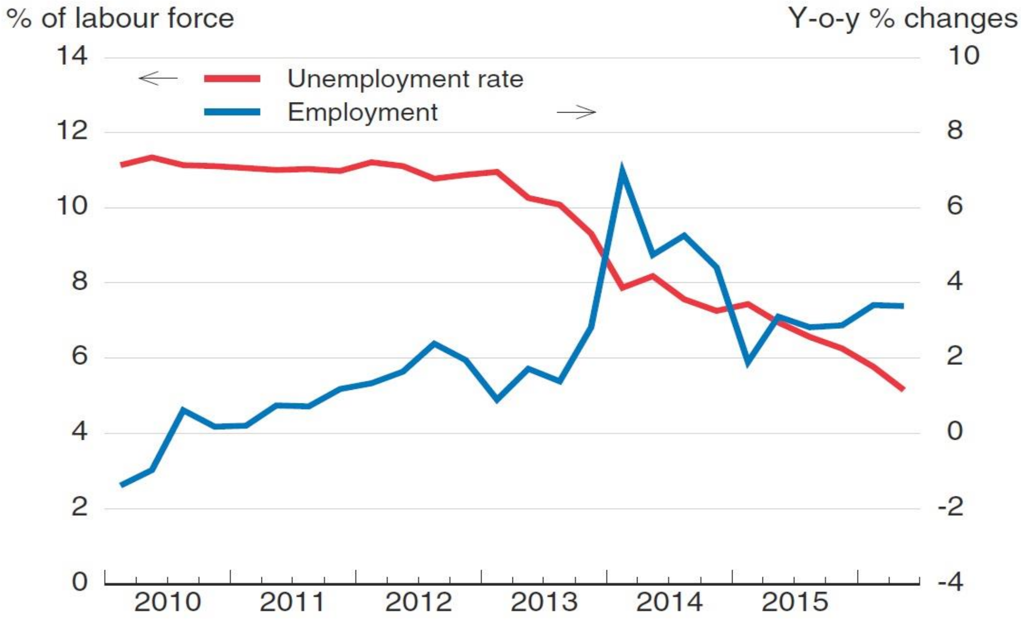
	Percentage changes, volume (2005 prices)				
	2014	**2015**	**2016***	**2017****	**2018****
GDP at market prices	4,0	3,1	1,7	2,5	2,2
Private consumption	2,5	3,4	5,0	3,8	3,7
Government consumption	4,5	1,0	2,7	1,4	1,0
Gross fixed capital formation	9,9	1,9	-16,0	5,9	6,3
Exports of goods and services	9,8	7,7	8,1	4,8	4,3
Imports of goods and services	10,9	6,1	8,2	5,9	6,1
GDP deflator	3,4	1,7	0,2	2,2	2,9
Unemployment rate	7,7	6,8	5,1	4,5	4,4
General government financial balance as a percentage of GDP	-2,1	-1,6	-1,6	-2,0	-2,0
General government gross debt as a percentage of GDP	98,7	97,0	97,5	96,4	95,2
Current account balance as a percentage of GDP	2,1	3,4	6,8	6,7	5,7

Source: Organisation for Economic Co-operation and Development (OECD)

In the real economy, GDP growth continues to be underpinned by low interest rates for loans and SME borrowing incentives. On the macro-economic level, the Government's stimulus measures for the building of residential properties have been a major positive factor, while on the demand side the pick-up in private investment growth driven by the reduction of the personal income tax rate and the rate of VAT on certain products has played a pivotal role. On the other hand, the OECD predicts slight deterioration in the country's export position, due to rising labour costs.

In the opinion of analysts, the unemployment rate is set to keep falling in the medium term, in accordance with the trend in recent years (Fig.1). In 2015, the unemployment rate shed another 2 percentage points, following a same-sized drop in the previous year, to below 5 percent. Although state-run public work schemes used to contribute substantially to employment growth, the OECD predicts that future employment growth will be fuelled mainly by the private sector, while a downward trend is forecast for public sector hiring.

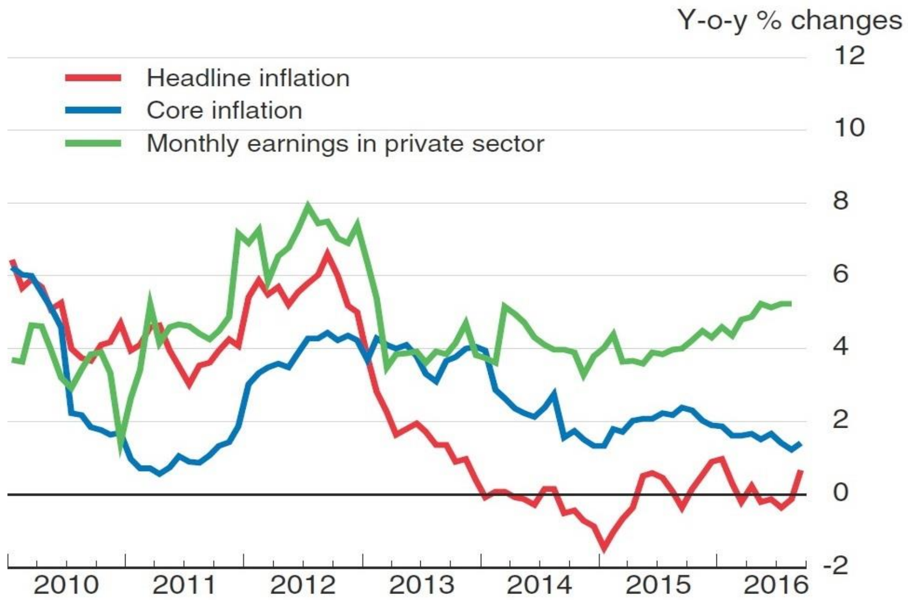
Fig. 1: Unemployment rate in Hungary



Source: Organisation for Economic Co-operation and Development (OECD)

Wage and income trends are also encouraging: the wages of those employed in the private sector rose by more than 5 percent last year, and the upward trend continued in 2016 (Fig.2). Headline inflation has hovered around 0 percent until the end of the year, but due to higher indirect taxes triggered by the further decline in energy prices this indicator now shows some 1 percent. Food and energy price effects have reduced core inflation to the current rate of 1.5 percent.

Fig. 2: Real wages in Hungary



Source: Organisation for Economic Co-operation and Development (OECD)

The OECD finds that Hungary's fiscal manouvering room has expanded, due for example to the fact that the costs of servicing state debt have been reduced by 1 percent of GDP since 2013. Although the organization still predicts a government debt-to-GDP ratio of 75.1 percent by the end of 2016, currently available data indicate a much better figure (Table 1).

With regard to the financial system and monetary policy, OECD economists predict that the current base rate of 0.9 percent will remain unchanged. The National Bank of Hungary (MNB) had already signalled that this rate is in line with the bank's eventual inflation target of 3 percent. The interest rate policy of the MNB has been successful, as it has managed to bring down interest rates and keep the forint exchange rates within a stable band. Along with other favourable effects, these developments have reduced the costs of state debt financing.

The OECD also remarks that due to this improved fiscal manouvering room Hungary is well positioned to maximize economic growth stimulus next year. These are seen to include, among others, the gradual downsizing of public work schemes parallel to private sector job growth and the acceleration of the implementation of state investment projects by means other than EU funding.