

2.24. HUNGARY

Hungary's economy grew by 4.9% in 2018, thanks to the robust expansion of consumption and investment. GDP growth strengthened further in the first quarter of 2019 to 5.3% year-on-year. Growth received a boost from exports as the automotive industry switched into higher gear following several weaker quarters. Construction activity benefitted from the mild winter and the sector's output grew by over 46% year-on-year in the first quarter. According to monthly business indicators and surveys, year-on-year GDP growth remained robust in the second quarter of 2019. However, new orders have not kept pace with construction activity recently and the order book of construction companies was already shrinking by 6% year-on-year in April. This foreshadows a marked slowdown in investment activity and GDP growth over the coming quarters.

GDP growth is projected to reach 4.4% in 2019 and then slow to 2.8% in 2020. The investment rate has already reached a high level and thus investment growth is projected to decelerate in 2020. With the economy near full employment, job creation is set to slow and this should moderate private consumption growth. Export growth is also forecast to slow due to the persistent weakness in key export markets. At the same time, strong domestic demand will continue to boost imports, deteriorating the trade balance.

HICP inflation rose to 4.0% in May 2019 on the back of rising fuel and food prices. As these cost-side pressures fade, inflation is set to decrease in the second half of 2019. However, core inflation (excluding energy and unprocessed food) should remain near 4% because strong demand allows rapid wage growth to feed into consumer prices. The gross average wage increased by 10.4% in the first four months of 2019 due to the tight labour market and minimum wage hikes. The continuing rise of excise duties on tobacco will add around 0.2 pps. to inflation in 2020. Overall, HICP inflation is projected at 3.2% in both 2019 and in 2020.

