Economic Trends in Eastern Europe

Vol. 29. 1. (2019)

KOPINT-TÁRKI
Konjunktúrakutató Intézet Zrt.

KOPINT-TÁRKI
Economic Research Limited
Budapest

Economic Trends in Eastern Europe

Economic Trends in Eastern Europe is an insightful publication providing subscribers with a comprehensive picture of Eastern European economic developments.

2019 No. 1 May

Economic Trends in Eastern Europe is written by the research team of the Kopint-Tárki Economic Research Institute – the same group that has authored the previous 24 volumes of this publication. Each issue provides an analysis of the current economic situation as well as of the specific problems of economic growth and institutional changes in Eastern Europe.

Published by KOPINT-TÁRKI Economic Research Institute Limited

Responsible Publisher:

Éva Palócz

Subscription Information

Annual subscription rate 2018

EUR 600.00 (one year - 3 issues), single issue price: EUR 200.00 including carriage charges.

Authors:

Chapter 1: International Environment
Katalin Nagy

Chapter 2: Central and Eastern Europe
Katalin Nagy, Péter Vakhal

Chapter 3: The Hungarian Economy
Zoltán Matheika, Gábor Oblath, Éva Palócz, Péter Vakhal

H-1112 Budapest XI., Budaörsi út 45.
Published and distributed in Hungary
by KOPINT-TÁRKI Economic Research Institute Limited
Phone: (36-1) 309-2695
Fax: (36-1) 309-2647

Orders should be addressed to KOPINT-TÁRKI Economic Research Institute.

This publication may not be reproduced without the permission of KOPINT-TÁRKI Economic Research Institute.

Edited by Éva Palócz

Closed on May 30, 2019.

Printed in Hungary by KOPINT-TÁRKI Economic Research Company Limited
Technical editor: Erika Rózsás
HU ISSN: 1216-1829
© Kopint-Tárki Budapest 2018
info@kopint-tarki.hu

Economic Trends in Eastern Europe

No. 1. 2019

Budapest, May 2019

1. International economy

Global growth forecasts has been becoming more pessimistic lately, due to the slowdown during the second half of last year. The growing vulnerability of Chinese economy, weakening growth in the EU, deceleration of world trade growth, political uncertainties and the appearence of novel risks on financial markets can significantly dampen medium term growth prospects. The latest OECD forecast predicts a global growth of 3.3 and 3.4 percent, respectively for 2018 and 2019, way below the estimatee pace of 3.8 percent in 2018. Business sentiment is hurt by the many unknowns about what direction the US-generated trade conflicts, the Brexit mess will take and what spillover effects the Chinese slowdown will generate. The monetary tightening will be apparently more cautious than previously expected, hence liquidity will remain abundant, decreasing the probability of a global hard landing.

Geopolitical and regional conflicts also contribute to the worldwide deceleration. **Venezuela**, the country with the largest oil reserve in the world that suffers from years of severe economic crisis, may even plunge into civil war. In this case, Venezuelan oil sales would be diverted outside the conventional trade chanells, resulting in an oil price hike. If, on the other hand, the conflict between the government (supported by Russia and China) and the opposition (supported by the US and Western Europe) was resolved relatively peacefully with the victory of either parties, an economic upturn would follow, fueled by investments infrastructure and oil industry investments and by pent-up consumption demand.

Global trade grew by 4 percent in the last year, mostly driven by emerging conutries. The last two months of the year, however, saw a 7 percent fall in global import, due to, among others, the slowdown in Chinese consumption expansion. Chines companies were not hurt very severely, so far, by the trade war with the US – the US export into China, on the other hand, fell by 20 percent. It should be noted that China devalued its currency significantly to improve its price competitiveness, hence the negative impact of the trade ward on the Chinese economy may play out on the longer term.

The prices of most **industrial raw materials** decreased markedly, in some cases by as much as 10 percent, in 2018, except the few ones with the largest respective shares Coffee and cocoa prices fell but tea prices rose or only dipped moderately. Also, maize prices fell but the downward trend of wheat prices stopped. Precious metal prices stagnated but the price of palladium rose to USD 1,400/ounce, making palladium more expensive than gold.

Crude oil prices stood at an annual average of USD 71 per barrel in 2018. Tavaly a **nyersolaj** hordónkénti ára éves átlagban 71 dollárt ért el. This year, oil prices fluctuate around USD 54-68 so far. Oil demand growth decelerated considerably in the last quarter of 2018, especially in Europe and Asia. Decreasing demand in the OECD countries pushed overall demand further in the first months of 2019. Still, global demand may expand by 1.3-1.4 million barrels per day, due to the non-OECD countries. Oil prices are likely to remain volatioe, with a yearly average of USD 67-70 in 2018 and USD 65-68 in 2019.

Stock market volatility has grown due to the overall uncertainty and the bad macroeconomic news. The most important US and European stock market indices weakened in March, along with a growing demand of safe assets, leading to falling bond yields. As expected, the FED left the policy rate unchanged in March. To calm the markets, the Chair of the FED announced that there would be no further rate hike this

year, and only one rate hike is expected in 2020. The Eurozone inflation once again dipped below 2 percent, hence te ECB also left the policy rate unchanged in March and it is expected to do so during the rest of the year. In the light of the economic cooling, this is not an unreasonable policy stance.

The euro is still relatively weak: it fluctuates around 1.12-1.14 USD, well below the 2018 average. But the pressure on the euro has eased, due to the slowdown of US rate hikes. Worsening economic prospects, Brexit-related uncertainties and the turbulencies on bond and stock markets can cause wild fluctuations in the euro exchange rate. After the yearly average of 1.14 USD/EUR in 2018, our prediction for this year is around 1.14 USD/EUR in 2019 on average, with downward risks.

Economic growth in the **US** will probably slow down after the 2.9 percent peak in the last year. In 2018, growth got a boost from business investments while housing investments remained relatively weak. Private consumption is still robust. The first quarter does not look good so far but trowth rates may pick up somewhat later. Although the fiscal impulse has tapered off, improving labor markets and growing incomes are likely to maintain private consumption growth. The GDP may expand by 2.1 percent in 2019 and 1.9 percent in 2019. Inflation is still moderate, partly due to low energy prices, but it may pick up pace in 2020.

Japanese growth fell short of expectations with a rate of 0.8 percent in 2018, and no discernible acceleration is likely either in this year or in the next. The fourth quarter was especially disappointing: industrial production contracted, due to the weak Chinese demand that affected primarily the production of investment goods. The declining manager indexes suggest that no improvement is to be expected any soon on that front. Monetary policy remains expansive while fiscal policcy is neutral. The latest medium-term fiscal program does not indicate any intention of fiscal consolidation.

In **Russia**, the GDP may expand by about 1.5 percent this year, a slowdown after the 2.3 percent in 2018. Especially industrial growth lost momentum, and the confidence indices also indicate near-stagnation. The value-added tax was raised by 2 percentage points to 20 percent, which, along with the depreciating ruble, pushed the inflation rate upward and forced the central bank to raise interest rates in December. The government's fiscal room for maneuver is constrained by oil prices. On the whole, there are no new capacities on the horizont hat could give a boost to economic gowth, and no structural reforms are in the offing either. Foreign investors, probably indispensable for a fore dynamic growth trajectory, remain cautious. The unemployment rate is relatively low but this may change with the slowing economic growth.

While it seems so far the **China** suffered less from the trade war than the US, it should be not forgotten that the impact was cushioned by significant stimulus measures by the state. Also, these measures do not prevent deceleration. The GDP was up 6.6 percent in 2018 and the pace is likely to moderate to 6.2 percent in 2019 and 2020. There are still many cards left in the government's hand but a decentralization might be necessary for a redynamisation of the economy on the longer term.

Economic growth lost steam in the **euro area** in 2018, mostly due to external factors. The GDP rose by only 1.8 percent, with a consecutive slowdown in every quarter. Beside sluggish external demand, a couple of country specific factors played a role as well: the strikes in France, the problems of the automotive sector in Germany, the political uncertainties and the debates around fiscal policy in Italy took a toll on economic growth. The sentiment indicators are pointing downward, suggesting further weakening of

economic dynamism. At the moment, an annual growth rate of 1.3 seems likely in 2019, with a minimal acceleration in 2020 – both predictions are well below the former expectations. Investment activity suffers especially heavily but export prospects are also worsening. Economic growth slowed down especially in the large Eurozone countries: Germany, France, Italy. At the moment, the probability of a no-deal Brexit seems rather large, there has been no progress whatsoever in the recent months. At the same time, the voice of Remainers is getting louder. Eurozone inflation is slowing again, due to low energy prices. While the harmonised inflation rate was above 2 percent in last October, it dipped to 1.5 percent by February 2019. Core inflation edged upward but it is still around 1 percent. At a yearly average we expect an inflation of 1.4 percent for the Eurozone and 1.6 percent for the EU28 as a whole in 2019. Labor market indicators are still relatively favorable: in 2018, the unemployment rate stood at 8.2 percent in the Eurozone and 7 percent in the EU28.

In **Germany**, the slowdown is now expected to be much more drastic than a couple of months ago. Economic growth is expected to remain slightly below 1 percent in 2019, a sharp celeleration compared to the 2.4 percent in the last year, and even this forecast is not without downward risks. Apart from the difficulties in auto industry and the chemical industry and the weakening of external demand, weather conditions (low water levels on rivers) contributed to the slowdown. Confidence indicators are mixed: while the manager index is on a downward trend, The IFO index – the most representative index in Germany – slightly edged up in March, after several months of decline. Exporters' confidence and investment activity is severely hurt by the external uncertainties, the trade wars and political tensions. The degree to which the Brexit will affect German export is largely dependent on what form the Brexit will take. But even without actual Brexit, German export to the UK fell by 7 percent in 2018 in nominal terms compared to 2015, the last pre-Brexit vote year.

Tbe Brexit mess clearly has an impact on the growth of **UK economy**. After a growth of 1.4 percent in 2018, GDP may expand by only 0.7 percent in 2019, with a minimal acceleration with 2020. The deceleration of growth in the services sector was accompanied by an outright contraction of activity in manufacturing and construction, in the last quarter of 2018. The volume of investments stagnated in the last year, and it is likely to decrease in 2019. A no-deal Brexit will especially heavily affect the investment activity of the businss sector. Numerous export-oriented firms relocated – or plans to relocate – its headquarters into one of the EU27 member states, which does not bode well for growth perspectives either.

2. Central Eastern European new member states

In 2018, the new EU member states boasted an average GDP growth of 4.4 percent, slightly below the 4.8 percent in the previous year. The slowdown is visible but not every new member state is affected by it so far. In four countries – out of 13 – economic growth gathered speed in 2019: in Latvia, Hungary, Poland and Slovakia. On the other hand, in three countries (Romania, Czechia and Estonia) the pace of growth decelerated by at least 1 percentage point. Had the favorable Hungarian and Polish growth numbers not pulled the regional average upward, it would have been below 4 percent. Poland's growth record has been outshined that of the region during the recent years, due to two factors: the inflow of EU funds (just as in Hungary) and the fact that the inflow of Ukrainian guest workers substantially alleviated the labor shortage (unlike in Hungary). It is to be seen whether Poland will be able to keep these guest workers in the coming years.

In the fourth quarter the slowdown reached almost every NMSs and the regional average was only 4.1 percent. Malte (7.2%), Hungary (5.1%) and Latvia (5.1%) were the growth leaders in that quarter. Malta is the growth champion in the whole EU although its dynamism is also moderating. The Maltesse economy got a boost from high tourism revenues and from an investment boom fueled by strong external and domestic demand and helped by low interest rates. External demand actually got – and probably will get – a boost from Brexit since Malta is a good alternative for UK citizens and corporations.

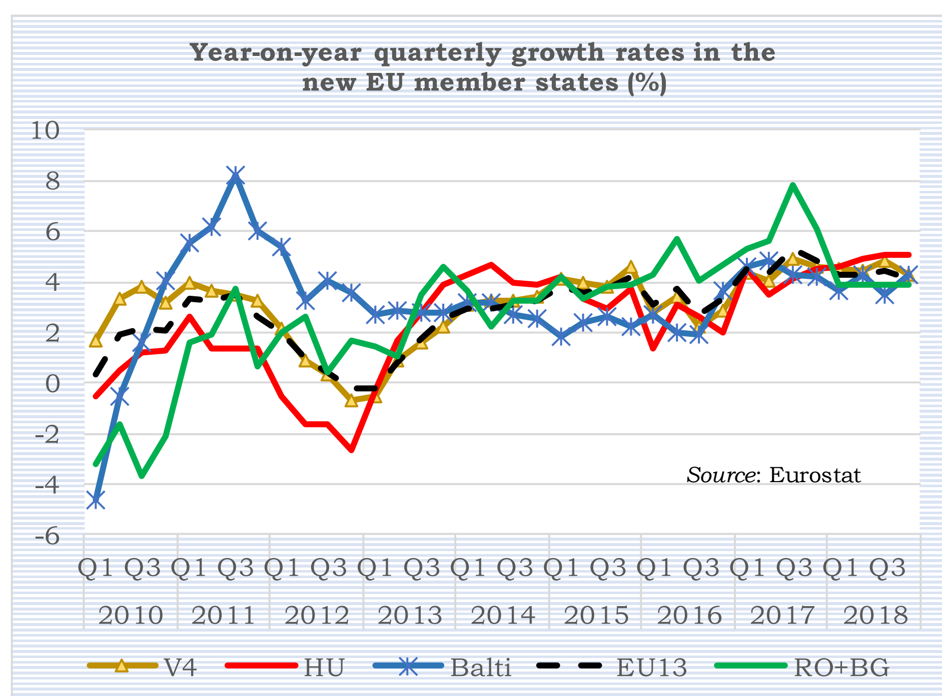
Croatia is at the low end of the region with a fourth-quarter growth rate of 2.3 percent. Since during the last decade Croatia suffered a prolonged recession for a 6 years, this is still far above the average of the last ten years. The recent growth is fueled by the slow revival of household consumption and by tourism revenues. But the fact that the credit ranking of Croatia is among the worst within the EU – and the debt management has been often ineffective, especially in the recession years, makes it difficult to reach a more dynamic growth trajectory. The Croatian central bank always prioritized the prevention of the depreciation of the kuna, which has taken a toll on growth performrmance. Economic growth has stabilized recently but substantial structural reforms would be needed for a faster economic convergence.

The Czech Republic also underperformed in the fourth quarter: the 3.2 percent growth rate was far below the regional average, and not the first time. Yet, the Czech growth is robust and all main GDP components are growing. Labor shortage is an acute problem, however, and it became a significant competitive handicap within the region. Not just the chronic shortage of qualified workforce but the concomitant rise in unit labor costs is a disincentive to investment. The Czech growth problems may serve as a warning for the countries in which wages are becoming detached from producivity growth. The Czech central bank has tightened its policy stance, out of fear of inflation getting out of hand, and this also hinders growth. The inflow of EU funds, on the other hand, stimulate growth at the moment.

The possibility that the Romanian economy is overheated – that is, it keeps expanding at a pace above the potential rate – has arisen repeatedly over the past years. Although it seems likely now that the Romanian growth is unsustainable, no sudden recessionry turn is likely. The unemployment rate stands at 4.2 percent, which means that some labor reserve still exists, even if it is contracting and its quality is no ton par with the already employed workforce. It seems that still there are some industrial capacities for

the continuation of economic growth, and least on the supply side. As for demand, the growth is primarily fueled by fiscal measures, stimulating private consumption, while net export is steadily negative and the terms of trade is deteriorating. The Romanian minimum wage has doubled during the last 10 years in euro terms – although it was very low, EUR 142, in 2009. The fiscal stimulus resulted in a steep rise of the fiscal debt/GDP ratio, to 35 percent in 2017 from 12 percent in 2008.

Still, the bottom line of the past decade is positive for Romania. The real per capita GDP has risen by 39 percent since 2010 – at the same time, the cumulative growth in Hungary was only 25 percent. As a result, real per capita GDP got closer to the EU average by 9.4 percentage points in Romania, as opposed to the 4.2 percentage points in Hungary. Also, the difference between Hungary and Romania contracted from 14 to 9.4 percentage points after 2010. Romania opted for a partially debt-financed growth model at a moment characterized by historically low interest rates and abundant liquidity. The country implemented comprehensive structural reforms, which gave a boost to investors' trust. While GDP growth has decelerated, another turnaround is likely since Romania has lagged so far in utilizating the available EU funds. The coming upturn of the inflow of EU funds will probably pull Romania sback into the fray of fast-growing economies.



Mounting inflationary pressures

Inflation is generally on the rise in the new member states. The harmonized rate was 4.4 percent in Romania, 3.9 percent in Hungary, 3.3 percent in Latvia in April 2019. Besides, most Eastern European member states (with the exception of Croatia and Slovenia) face inflation indices above 2 percent. Core inflation rose to a level close to – or above – 2 percent by April as well, save Croatia and Slovakia. The rate was highest in Romania and Hungary (3 and 2.8 percent, respectively, in April). Inflation is clearly pulled upward by food prices: the latter rose by more than 6 percent in Romania, more than 5 percent in Bulgaria and Hungary, and more than 4 percent in Estonia percent in April. The Czech central bank raised its policy rate the last time in November, as a preventive measure. In Romania, a slight monetary tightening is likely during this year

as the economy seems to finding itself between a rock and a hard place: slowing growth on the one hand, and rising inflation on the other. The weakening of the leu is not drastic so far (it depreciated only by 1.5 percent during the past half year), but the direction of trends will push the Romanian monetary council toward a rate hike.

Even though past the peak, 2019 will be a good year

While the pace of growth will decelerate from 2018 levels, the deceleration will be probably moderate in 2019. There are still substantial EU funds available for the new member states, the well-timed utilization of which can cushion the impact of softening external demand. Also, private consumption growth is likely to remain dynamic, but net export will contract further, due to the rising share of imports in consumption. But the public investments financed out of the EU funds will largely offset this negative factor. In the non-euro countries, exchange rates are expected to be kept on the weak side, even if the the inflation rates temporarily exceed the 3 percent target level. Rate hikes are likely to remain symbolic (with the possible exception of Romania), or they may not materialize at all. On the whole, we expect an average growth rate of 3.6 percent and an inflation rate of 3 percent in 2019. The prospects for 2020 are uncertain: it is hard to estimate the effects of the delay in the tightening cycle on the part of the ECB and of the gradual drying up of EU funds. At present, GDP may grow by an average 3 percent in the next year, with an inflation rate of 2.8 percent.

Table 2.1.

Economic Growth in the EU Member States

(Percentage change of real GDP over the previous year)

	Weight	2013	2014	2015	2016	2017	2018	2019**	2020**
Germany	21.4	0.5	2.2	1.7	2.2	2.2	1.4	0.8	1.6
France	14.8	0.6	1.0	1.1	1.2	2.2	1.5	1.2	1.4
Italy	11.1	-1.7	0.1	0.9	1.1	1.6	0.9	0.9	0.1
Netherlands	4.9	-0.2	1.4	2.0	2.2	2.9	2.5	2.1	1.3
Belgium	2.8	0.2	1.3	1.4	1.4	1.7	1.4	1.4	1.3
Luxembourg	0.3	3.7	4.3	3.9	2.4	1.5	3.1	2.9	2.9
Ireland	2.0	1.6	8.3	25.1	5.0	7.2	6.7	3.0	3.0
Greece	1.2	-3.2	0.7	-0.3	-0.2	1.5	1.9	2.1	2.2
Spain	7.6	-1.7	1.4	3.6	3.2	3.0	2.5	2.1	1.9
Portugal	1.3	-1.1	0.9	1.8	1.9	2.8	2.1	1.3	1.4
Austria	2.4	0.0	0.7	1.1	2.0	2.6	2.7	1.2	1.3
Finland	1.4	-0.8	-0.6	0.5	2.8	2.7	2.2	1.5	1.7
Estonia	0.2	1.9	2.9	1.9	3.5	4.9	3.9	3.2	2.6
Slovakia	0.6	1.5	2.8	4.2	3.1	3.2	4.1	3.8	3.4
Slovenia	0.3	-1.1	3.0	2.3	3.1	4.9	4.5	3.5	3.1
Cyprus	0.1	-6.0	-1.3	2.0	4.8	4.5	3.9	3.0	2.5
Malta	0.1	4.6	8.2	9.5	5.2	6.7	6.6	4.1	3.7
Latvia	0.2	2.4	1.9	3.0	2.2	4.6	4.8	3.2	2.8
Lithuania	0.3	3.5	3.5	2.0	2.3	4.1	3.4	3.0	2.5
Euro Area	**72.9**	**-0.3**	**0.9**	**2.2**	**1.9**	**2.4**	**1.8**	**1.3**	**1.4**
United Kingdom	15.1	2.1	2.9	2.3	1.8	1.8	1.4	0.7	0.9
Denmark	1.9	0.9	1.6	1.6	2.0	2.3	1.2	1.7	1.5
Sweden	2.9	1.2	2.6	4.5	2.7	2.1	2.4	2.0	2.0
Hungary	**0.8**	**2.1**	**4.2**	**3.5**	**2.3**	**4.1**	**4.9**	**4.5**	**3.2**
Czech Republic	1.3	-0.5	2.7	5.3	2.5	4.4	3.0	2.9	2.5
Poland	3.1	1.4	3.3	3.8	3.0	4.8	5.4	4.1	3.6
Romania	1.3	3.5	3.4	3.9	4.8	7.0	4.1	3.1	2.7
Bulgaria	0.3	0.9	1.3	3.6	3.9	3.8	3.1	3.5	2.7
Croatia	0.3	-1.1	-0.1	2.4	3.5	2.9	2.6	2.6	2.5
EU-15	**91.1**	**0.1**	**1.3**	**2.3**	**1.9**	**2.3**	**1.7**	**1.2**	**1.3**
New EU-13	**8.9**	**1.3**	**2.7**	**3.8**	**3.2**	**4.8**	**4.4**	**3.6**	**3.1**
EU-28	**100**	**0.3**	**1.4**	**2.4**	**2.0**	**2.5**	**1.9**	**1.4**	**1.5**
BREXIT	**84.9**				**2.1**	**2.6**	**2.1**	**1.6**	**1.6**
Memorandum items									
USA		1.7	2.6	2.9	1.5	2.3	2.9	2.1	1.9
Japan		2.0	0.3	1.1	1.0	1.9	0.8	0.7	0.7
China		7.7	7.3	7.0	6.7	6.9	6.6	6.2	6.2
Russia		1.3	0.7	-2.8	-0.2	1.5	2.3	1.4	1.5
South-Eastern Europe									
Serbia		2.6	-1.8	0.8	2.8	1.9	4.0	3.8	3.8
Turkey		4.2	5.2	6.1	3.2	7.4	3.8	-1.5	3.0

* Kopint-Tárki forecast

EU-15 = Countries that joined the European Union before 2004 ("Old EU Member States")

New EU-13 = Countries that joined the European Union in 2004, 2007 and 2013 ("New EU Member States")

Source: Eurostat, national statistical offices, OECD

Table 2.2.

Inflation in the EU Member States

(Harmonized consumer price indices, percentage change over the previous year)

	Weight	2013	2014	2015	2016	2017	2018	2019**	2020**
Germany	20.1	1.6	0.8	0.1	0.4	1.7	1.9	1.4	1.6
France	14.3	1.0	0.6	0.1	0.3	1.2	2.1	1.5	1.6
Italy	12.4	1.2	0.2	0.1	-0.1	1.3	1.2	1.1	1.2
Netherlands	3.9	2.6	0.3	0.2	0.1	1.3	1.6	1.3	1.3
Belgium	2.6	1.2	0.5	0.6	1.8	2.2	2.3	1.7	1.8
Luxembourg	0.2	1.7	0.7	0.1	0.0	2.1	2.0	1.8	2.2
Ireland	1.1	0.5	0.3	0.0	-0.2	0.3	0.7	1.1	1.3
Greece	1.4	-0.9	-1.4	-1.1	0.0	1.1	0.8	1.1	1.1
Spain	8.0	1.5	-0.2	-0.6	-0.3	2.0	1.7	1.4	1.6
Portugal	1.5	0.4	-0.2	0.5	0.6	1.6	1.5	1.0	1.1
Austria	2.2	2.1	1.5	0.8	1.0	2.2	2.1	1.4	1.5
Finland	1.4	2.2	1.2	-0.2	0.4	0.8	1.2	1.0	1.1
Estonia	0.1	3.2	0.4	0.1	0.8	3.7	3.4	2.9	3.0
Slovakia	0.6	1.5	-0.1	-0.3	-0.5	1.3	2.5	2.7	2.5
Slovenia	0.3	1.9	0.4	-0.8	-0.2	1.6	1.9	2.0	2.1
Cyprus	0.2	0.4	-0.2	-1.6	-1.2	1.0	0.8	1.4	1.4
Malta	0.1	1.0	0.7	1.2	0.9	1.3	1.7	1.7	2.0
Latvia	0.2	0.0	0.7	0.2	0.1	2.9	2.6	2.7	2.8
Lithuania	0.3	1.2	0.3	-0.7	0.7	3.8	2.5	2.7	3.0
Euro Area	**70.9**	**1.3**	**0.4**	**0.0**	**0.2**	**1.5**	**1.8**	**1.4**	**1.6**
United Kingdom	17.8	2.6	1.5	0.0	0.7	2.7	2.5	1.9	2.1
Denmark	1.6	0.5	0.4	0.2	0.0	1.1	0.7	1.6	1.2
Sweden	2.3	0.4	0.2	0.7	1.1	1.9	2.0	2.0	2.2
Hungary	**0.7**	**1.7**	**0.0**	**0.1**	**0.4**	**2.4**	**2.9**	**3.5**	**3.5**
Czech Republic	1.1	1.4	0.5	0.2	0.7	2.3	2.0	2.4	2.4
Poland	3.4	0.8	0.1	-0.7	-0.2	1.6	1.2	2.2	2.9
Romania	1.5	3.2	1.4	-0.4	-1.1	1.0	4.1	3.2	3.0
Bulgaria	0.4	0.4	-1.6	-1.1	-1.3	1.0	2.6	2.7	2.7
Croatia	0.3	2.3	0.3	-0.3	-0.6	1.3	1.6	2.0	2.5
EU-15	**90.8**	**1.5**	**0.6**	**0.1**	**0.4**	**1.7**	**1.9**	**1.5**	**1.7**
New EU-13	**9.2**	**1.4**	**0.3**	**-0.4**	**-0.2**	**1.7**	**2.2**	**2.6**	**2.8**
EU-28	**100.0**	**1.5**	**0.5**	**0.0**	**0.3**	**1.7**	**1.9**	**1.6**	**1.8**
BREXIT	**82.2**				**0.2**	**1.5**	**1.8**	**1.6**	**1.7**
Memorandum items[a]									
USA		2.1	1.5	1.6	0.1	1.3	2.4	1.8	2.2
Japan		0.0	0.4	2.7	0.8	0.5	1.0	0.8	1.7
China		2.6	2.6	2.0	1.4	2.0	2.2	2.3	2.3
Russia[b]		6.8	7.8	15.5	7.0	3.7	2.9	4.9	4.0
South-Eastern Europe									
Serbia		1.5	2.3	1.5	1.3	3.2	2.1	2.9	3.0
Turkey		7.8	8.9	7.8	7.7	11.0	16.7	15.5	12.2

* Kopint-Tárki forecast
a Non-harmonized comsumer price indices
b December/December
EU-15 = Countries that joined the European Union before 2004 (“Old EU Member States”)
New EU-13 = Countries that joined the European Union in 2004, 2007 and 2013 (“New EU Member States”)
Source: Eurostat, national statistical offices, OECD

Table. 2.3.

Harmonized Unemployment rates in the EU Member States

(Unemployed as a percentage of the labor force aged 15-74, ILO-Eurostat)

	Weight	2013	2014	2015	2016	2017	2018	2019*	2020*
Germany	16.4	5.2	5	4.6	4.1	3.8	3.4	3.1	3.0
France	12.6	10.3	10.3	10.4	10.1	9.4	9.1	8.7	8.4
Italy	11.7	12.1	12.7	11.9	11.7	11.2	10.6	10.4	10.3
Netherlands	3.3	7.3	7.4	6.9	6.0	4.9	3.8	3.4	3.2
Belgium	2.2	8.4	8.5	8.5	7.8	7.1	5.9	5.6	5.3
Luxembourg	0.1	5.9	6.0	6.5	6.3	5.6	5.3	5.0	4.7
Ireland	0.9	13.8	11.9	10	8.4	6.7	5.8	4.9	4.3
Greece	2.1	27.5	26.5	24.9	23.6	21.5	19.3	18.9	17.5
Spain	9.2	26.1	24.5	22.1	19.6	17.2	15.3	14.0	13.1
Portugal	2.0	16.4	14.1	12.6	11.2	9.0	7.0	6.9	6.3
Austria	1.8	5.4	5.6	5.7	6.0	5.5	4.9	4.8	4.6
Finland	1.0	8.2	8.7	9.4	8.8	8.6	7.4	6.4	6.0
Estonia	0.3	8.6	7.4	6.2	6.8	5.8	5.7	6.6	6.6
Slovakia	1.1	14.2	13.2	11.5	9.7	8.1	6.9	6.3	6.0
Slovenia	0.4	10.1	9.7	9	8.0	6.6	5.6	5.3	5.1
Cyprus	0.2	15.9	16.1	15	13	11.1	8.2	6.3	4.8
Malta	0.1	6.4	5.8	5.4	4.7	4.0	3.9	4.0	4.0
Latvia	0.4	11.9	10.8	9.9	9.6	8.7	7.3	6.7	6.5
Lithuania	0.6	11.8	10.7	9.1	7.9	7.1	6.5	6.3	6.3
Euro Area	**66.3**	**12**	**11.6**	**10.9**	**10**	**9.1**	**8.2**	**7.9**	**7.6**
United Kingdom	12.6	7.5	6.1	5.3	4.8	4.4	4.0	4.2	4.1
Denmark	1.1	7.0	6.6	6.2	6.2	5.7	5.0	4.9	4.7
Sweden	1.9	8	7.9	7.4	6.9	6.7	6.3	6.3	5.9
Hungary	**2.0**	**10.2**	**7.7**	**6.8**	**5.1**	**4.2**	**3.7**	**3.6**	**3.5**
Czech Republic	2.1	7.0	6.1	5.1	4.0	2.9	2.4	2.5	2.6
Poland	7.8	10.3	9.0	7.5	6.2	4.9	3.3	2.9	2.8
Romania	4.0	7.1	6.8	6.8	5.9	4.9	4.3	4.2	4.1
Bulgaria	1.4	13	11.4	9.2	7.6	6.2	6.0	5.8	5.7
Croatia	0.8	17.4	17.2	16.1	13.4	11.1	9.1	7.6	6.6
EU-15	**78.9**	**11.1**	**10.5**	**9.9**	**9.2**	**8.4**	**7.5**	**7.3**	**7.0**
New EU-13	**21.1**	**10.1**	**10.4**	**7.9**	**6.6**	**5.5**	**4.5**	**4.0**	**3.9**
EU-28	**100.0**	**10.9**	**10.2**	**9.4**	**8.6**	**7.6**	**7.0**	**6.6**	**6.3**
BREXIT	**87.4**				**9.2**	**8.3**	**7.4**	**7.0**	**6.7**
Memorandum items[a]									
USA		7.4	6.2	5.3	4.9	4.3	3.9	3.8	3.8
Japan		4.0	3.6	3.4	3.1	2.8	2.4	2.4	2.3
China[b]		4.6	4.7	4.1	4.0	4.0	4.0		
Russia[c]		5.5	5.1	5.6	5.7	5.4	5.1		
South-Eastern Europe									
Serbia[d]		22.1	19.2	17.7	15.3	13.5	13.1	12.0	10.9
Turkey		9.0	9.9	10.3	10.9	11.2	10.1	12.8	12.7

* Kopint-Tárki forecast
a Non-harmonized unemployment rates
b Urban unemployment
c OECD statistics, unemployment rates for the age group 15-64
d National statistics, unemployment rates for the age group 15-64
EU-15 = Countries that joined the European Union before 2004 (“Old EU Member States”)
New EU-13 = Countries that joined the European Union in 2004, 2007 and 2013 (“New EU Member States”)
Source: Eurostat, national statistical offices, OECD

Macroeconomic indicators for Hungary and Kopint-Tárki forecast

(Year-on-year change, percentage)

	Data						Forecast		
			2018				2019		2020
	2017	2018	Q1	Q2	Q3	Q4	2018 Dec.	2019 May	2019 May
GDP aggregates, real growth									
GDP total	4.1	4.9	*4.6*	*4.9*	*5.1*	*5.1*	4.1	**4.5**	**3.2**
Domestic Demand	6.8	7.0	*5.9*	*6.0*	*8.6*	*7.2*	5.1	**5.5**	**3.7**
Private Consumption	4.1	4.6	*5.2*	*4.6*	*4.4*	*4.3*	4.0	**4.5**	**3.7**
Public Consumption	2.0	-2.1	*0.8*	*-0.7*	*-0.4*	*-3.0*	0.0	**0.0**	**0.0**
Gross Fixed Capital Formation	18.2	16.5	*10.5*	*15.6*	*20.0*	*17.2*	10.0	**10.5**	**5.0**
Gross Capital Formation	17.1	17.2	*11.0*	*13.4*	*20.8*	*20.7*	10.0	**10.5**	**5.0**
Export	4.7	4.7	*4.0*	*7.1*	*2.3*	*5.6*	5.9	**5.5**	**5.0**
Import	7.7	7.1	*5.5*	*8.5*	*6.2*	*8.2*	7.2	**6.8**	**5.7**
Industrial production	4.6	3.6	*3.2*	*3.9*	*2.3*	*5.1*	5.0	**5.4**	**4.5**
Consumer Price Index	2.4	2.8	*2.0*	*2.7*	*3.5*	*3.2*	3.4	**3.5**	**3.5**
Employment, Earnings									
Number of Employed, p. avg.[b]	1.6	1.1	*1.5*	*1.2*	*0.8*	*0.8*	0.5	**0.5**	**0.3**
Employment Rate [b]	59.3	60.4	*59.6*	*60.2*	*60.4*	*60.4*	60.6	**60.7**	**61.1**
Unemployment Rate [b]	4.2	3.7	*3.9*	*3.6*	*3.8*	*3.6*	3.3	**3.6**	**3.5**
Unit Labor Costs, in EUR[d]	11.4	6.1	*10.1*	*8.0*	*6.6*	*6.1*	4.9	**5.2**	**3.2**
Gross Nominal Wages	12.9	11.3	*12.4*	*11.6*	*11.1*	*10.5*	8.5	**8.5**	**8.0**
Net Real Wages	10.3	8.3	*10.2*	*8.7*	*7.8*	*7.1*	4.9	**5.3**	**4.7**
Savings Rate, % of GDP [e]	5.2	5.9	*5.7*	*5.9*	*6.2*	*5.9*	5.2	**5.0**	**4.0**
Current Account Balance % of GDP	2.8	0.5					1.3	**-0.2**	**-0.4**
Current and Capital Account Balance % of GDP	3.9	2.2	*5.2*[d]	*2.8*[d]	*1.7*[d]	*1.9*[d]	3.3	**1.5**	**1.0**
General Government									
Balance, ESA-2010, % of GDP	-2.2	-2.2	*-0.8*	*-1.3*	*-0.8*	*-6.8*	-2.8	**-2.4**	**-2.6**
Gross Government Debt % of GDP	73.3	69.0	*73.6*	*73.8*	*70.9*		71.0	**68.0**	**67.0**
Short-term Government Yields (3M), eop	-0.01	0.00	*0.00*	*0.13*	*0.12*	*0.00*	0.5	**0.3**	**0.5**
Long-term Government Yields (10Y), eop	2.02	3.01	*2.39*	*3.59*	*3.54*	*3.01*	4.0	**3.5**	**3.8**
External Assumptions									
Internat. Trade in Goods and Services [g]	4.9	4.0					3.7	**4.0**	**4.0**
Brent Oil Price ($/bbl, p. avg.)	54.2	71.2	*53.6*	*74.6*	*75.1*	*68.5*	74.0	**67.0**	**68.0**
GDP Real Growth, Eurozone	2.4	1.8	*2.1*	*2.3*	*1.6*	*1.3*	1.6	**1.3**	**1.4**
GDP Real Growth, New EU Members	4.4	4.4	*4.3*	*4.3*	*4.5*	*4.1*	4.0	**3.6**	**3.2**
EUR-HUF, period average	309	319	*311*	*317*	*324*	*323*	319	**319**	**319**
EUR-USD, period average	1.13	1.18	*1.23*	*1.19*	*1.16*	*1.14*	1.18	**1.14**	**1.14**

a ILO methodology, period averages, aged 15-74, including public workers

b Manufacturing, based on gross value added and monthly average compensation of employees in euro, cumulated from the beginning of the year

c Net lending of households according to the financial accounts statistics, four-quarter cumulative data, % of GDP

d Seasonally adjusted by the NBH

3. The Hungarian Economy

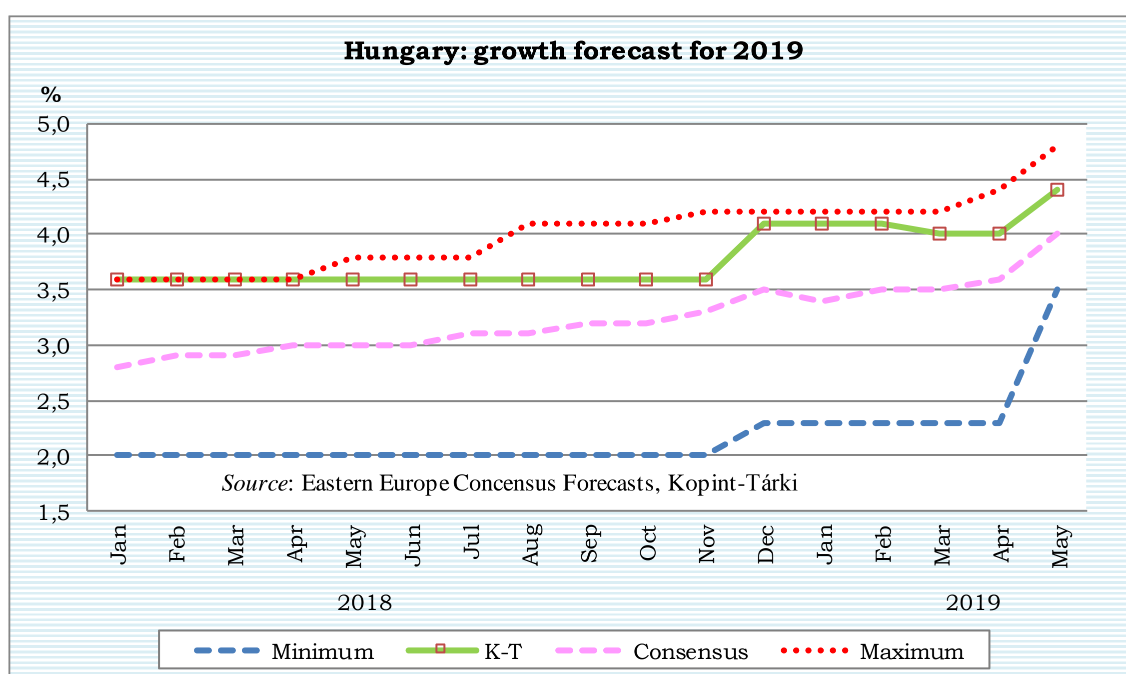
In the last quarter of the 2018, the pace of economic growth easily surpassed expectations again – the unadjusted growth rate was 5.1 percent. What is more, the third-quarter growth number was also revised 5.1 percent, resulting in a yearly average growth rate of 4.9 percent, **second only to** Poland among the Eastern European new member states.

The question is, whether the growth prospects of this year should be reconsidered in the light of the higher-than-expected dynamism in the last year. After all, much of the overachievement in the second half of the last year was due to the an upturn in agruculture on the production side and to the change of inventory on the expenditure side. Neither of these components reflectsj a substantive positive change in the overall shape of the economy. Also, private consumption and fixed capital formation lost some steam in the fourth quarter (while public consumption fell significantly).

But these considerations were partially overwritten by a further acceleration of growth in early 2019. According to a flash estimate, GDP was up 5.3 percent in the first quarter. The statistics of economic sectors suggest that an explosion of construction output was the primary factor behind this acceleration, beside a less spectacular upturn in industrial activity. Apparently both the utilization of EU funds and investment activity of private firms changed into higher gear.

Even if it is likely that a marked cooling of growth will occur during the remaining quarters, the annual growth outlook is needed to be revised in the light of such a strong year start.

Domestic demand clearly remains the driving force behind growth – fixed investment probably accelerated strongly during the first quarter, and that may be the case, to a lesser degree, for private consumption too. While in 2019 the annual growth rates of these two components are expected to remain below the respective rates in 2018, the degree of deceleration is likely to remain moderate.



Source: Eastern Europe Concensus Forecasts, Kopint-Tárki

Ths latest wage dsta suggests that wage growth moderation will be less substantial than previously projected. Hence, p*rivate consumption* growth may remain close to 4.5 percent in 2019. While significant segments of the business sector are gradually exhausting their capacity to raise wages, this has failed so far to materialize in an overall slower wage growth in the business sector**.** Wages apparently continue to grow at a dynamic pace at many of the multinational firms, a tendency that may have been reinforced by the relatively successful strike wave in the first months of the year. On the other hand, the period of very fast wage growth in the public sector is apparently over.

In the case of *fixed capital formation*, it is driven to a significant degree by state or state-related investments, in great part financed from the available EU funds. While the growth of direct state investments were already spectacularly slowing down at the end of the last year, business investments are also supported by EU programs, and their growth may remain quite dynamic in 2019. On the whole, growth of fixed capital formation is likely to slow down from the 16,5 percent seen in 2018 but **the pace is likely to remain above 10 percent**.

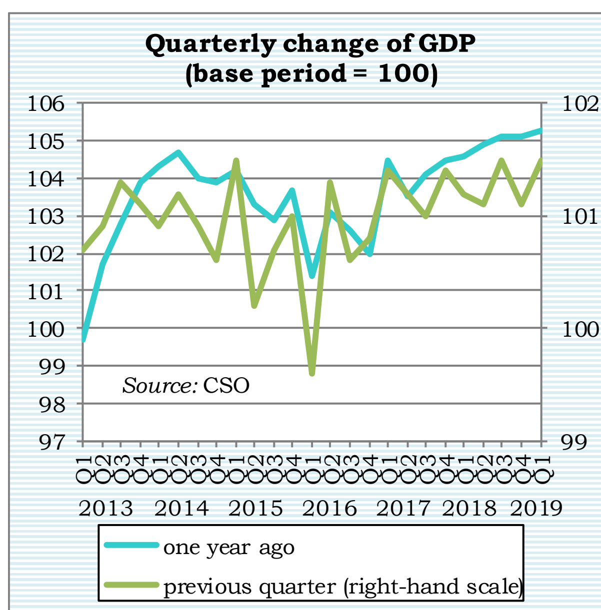
In any case, domestic demand as a whole will cool only moderately this year. The government seems to buttress consumption growth by new and cheap credit schemes – in certain cases, even non-refundable transfers – to a number of households, but it is to be seen to what extent this effort will succeed.

The last year amply demonstrates that a continuation of strong domestic demand expansion is constrained by the cooling of external demand. In just two years, the nominal surplus of the trade of goods and services decreased by more than 40 percent, while **the current account plummeted almost to zero**. This year, the former current account surplus may well turn into deficit. This is a real possibility even if there is a good chance that overall export will temporarily rebound and the negative growth contribution of net export is likely to moderate in 2019 and 2020.

On the whole, despite the deceleration, we expect economic growth continue at a good pace, **by 4,5 percent** (or marginally less) **in 2019**. Next year, however – as the components of domestic demand continue to lose pace – GDP growth is likely slow down below 3.5 percent.

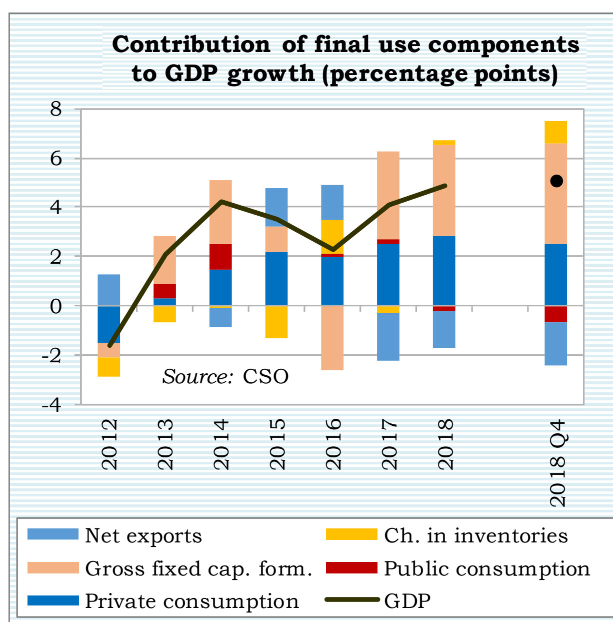
3.1. GDP and its components

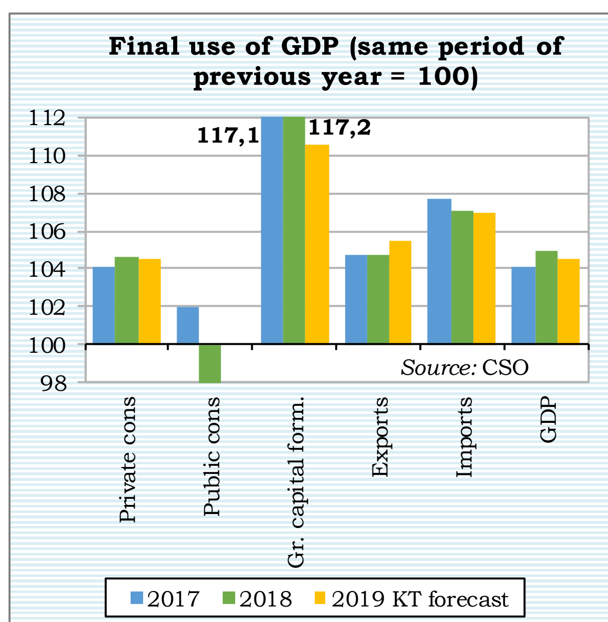
In the fourth quarter of 2018 GDP grew by 5.1 percent – a pace identical with the revised third-quarter growth rate – which exceeded the forecasters' expectations. On an annual average, the Hungarian economy expanded by 4.9 percent in 2018. This is the highest annual pace during the last fifteen years. Also, it was the fourth highest growth rate within the EU28, and the second highest (behind Poland) among the Eastern European new member states.



On the ***production side***, the highest contribution to growth still comes from the *services* sector, but the expansion of services were **decelerating during the year**. Services growth dipped below 4 percent in the last quarter, the first time in the last eight quarters. Construction kept galloping at a pace of about 20 percent, while industrial activity gained som speed and, most importantly, agricultural value added grew at a surprisingly dynamic pace.

The growth contribution of the relatively small construction sector was still higher than that of the industry, a much larger sector whose dynamism remained mediocre even amid the year-end acceleration.



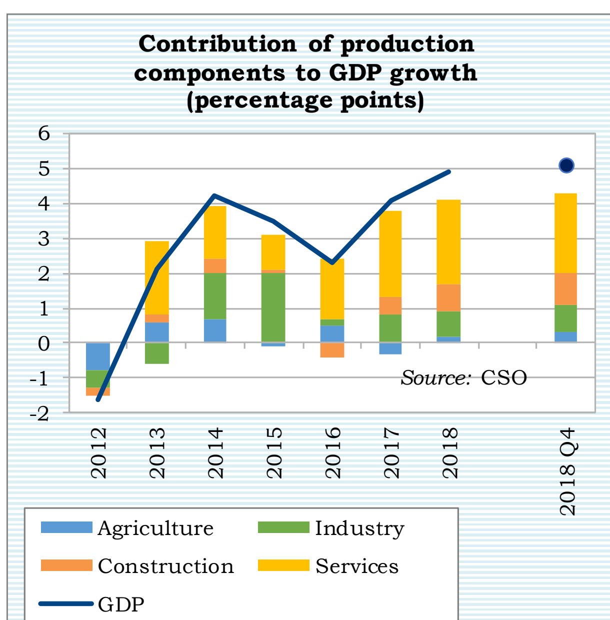


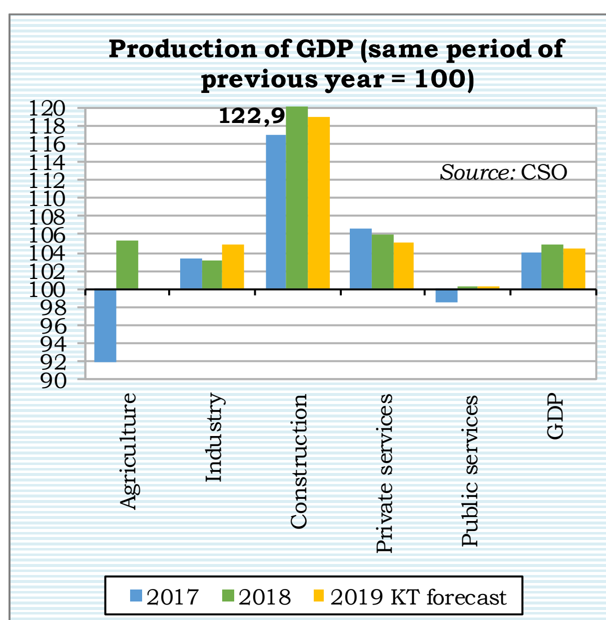
On the ***expenditure side***, the whole last year was characterized by the very fast expansion – at an annual average, 7 percent – of **final domestic use**. Private consumption rose by 4.6 percent, gross fixed capital formation was up 16.5 percent. Both components are likely to lose some momentum in 2019. **Public demand**, a crucial component of the growth of domestic demand in 2018, is likely to moderate in 2019 and the same goes – to a much lesser extent – for **household demand**.

The **first quarter of 2019 saw a jump in the growth rate**, to a year-on-year 5.3 percent. This – based on the extreme expansion of construction output – was probably a result of a reacceleration of investment growth, also consumption may have also grew faster than in the second half of the last year. This development seems to contradict our expectation regarding the eventual slowdown of economic growth but – at least at the moment – we deem this surprising first-quarter dynamism temporary.

External trade kept pulling down the overall growth rate in 2018, and it is expected to do so in this year as well. Export growth remained unchanged in 2018 while import growth lose some momentum in 2018, despite the outstanding expansion of domestic demand. **On the whole, net export of goods and services reduced the overall pace of economic growth by 1.5 percentage points in the last year**, which is significant but somewhat less drastic than in 2017.

This year, basically the same factors will continue to drive ecconomic gowth, but at a somewhat lesser intensity than in 2018. At the same time, the downward pull of external trade on growth will probably continue to moderate. On the whole, the outstanding first-quarter growth will be temporary but it suggests a milder-than-expected softening of overall growth for this year. **At present, we expect GDP growth remain respectable, with a pace of nearly – or exactly – 4.5 percent**.





3.1.1. Production of GDP

Industry

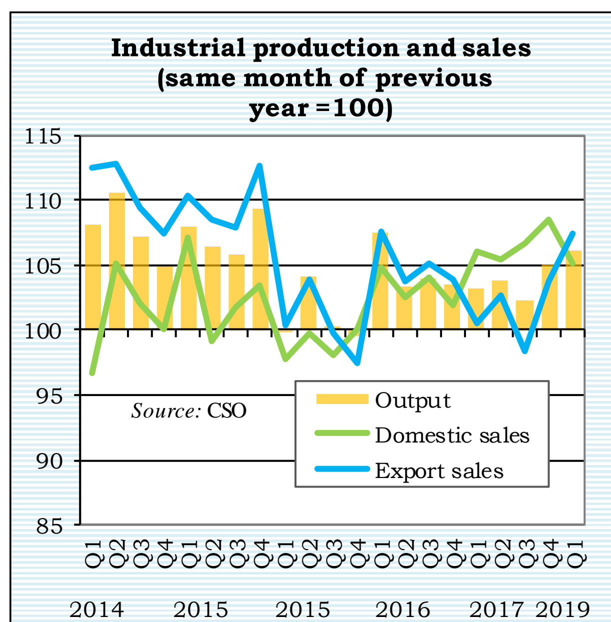
While industrial growth accelerated to 5.1 percent in the last quarter, the yearly average growth rate was a meager 3.6 percent in the last year, due to a very weak growth of *export sales*. This means that much of the industrial growth hinged on *domestic sales*, which is highly atypical for the generally very export oriented Hungarian industry. On a yearly average, domestic sales were up 8.7 percent, and the growth involved almost every industrial branch.

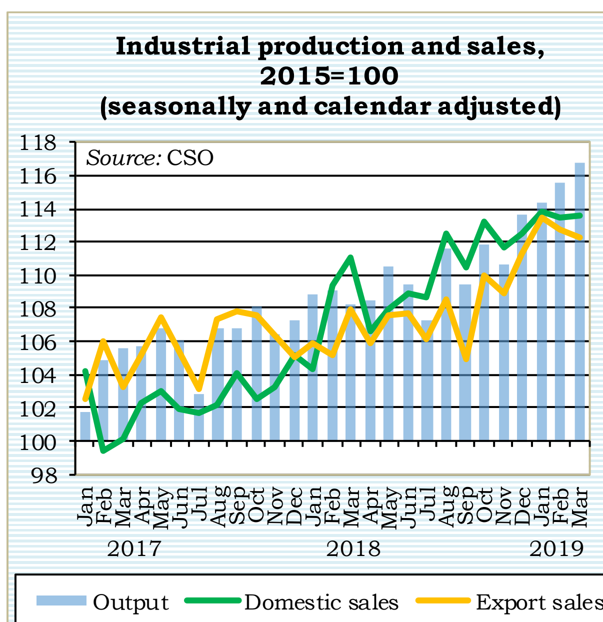
As for export sales, some branches did quite well – rubber and plastic industry, electric equipment industry and – to a lesser extent – eletronic industry and chemical industry. On the other hand, export sales decreased in a number of industrial branches, among others in the largest one: the *automotive* industry By the end of the year, automotive sales were held up by the difficulties around acquiring the new type approvals based on the WLTP test.

It should be noted that the moderate upturn in the last quarter was partly due to some improvement in export sales, and this improvement became more substantial in the **first three months of this year**. In January-March, industrial export sales were up 7.4 percent. Export sales of the electronic and especially of the electrical industry continued to rise in the first quarter. Besides, the export sales of the auto industry jumped by 11.4 percent. At the same time, domestic sales were also up 5.1 percent in the first three months of 2019.

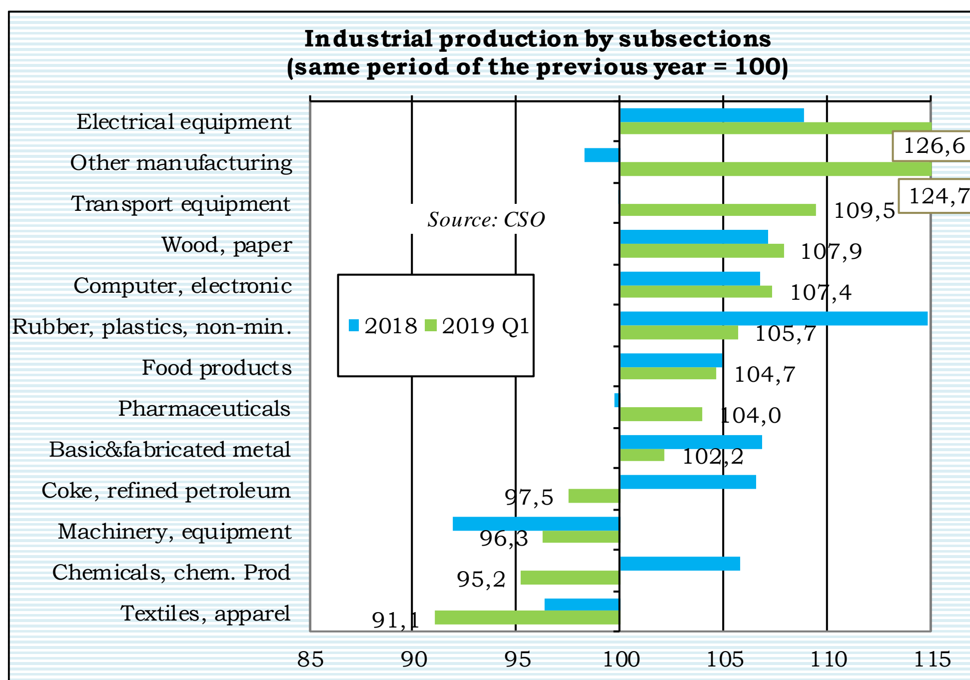
Industrial production grew by 6.2 percent in the first quarter. At the moment, we expect a slightly less sanguine growth rate **close to 5.5 percent for 2019** as a whole. With the WLTP-problems gradually overcome and with the entry of some new productive capacities, industrial growth will be more robust than in 2018, even if the export sales numbers at the start of the year moderate later. The recent trends suggest dynamic growth in the automotive industry and the electric equipment industry. Also the food, rubber&plastic, and electronic industries are likely to expand.

It should be noted, however, that not only positive risks exist. European, and especially German manufacturing confidence indicators became rather gloomy. Add to this he



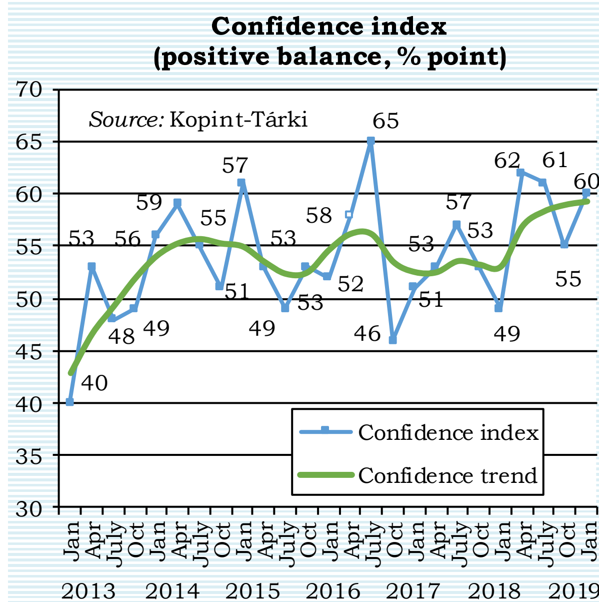


decreasing trend of Chinese demand, the slowly escalating trade war and the Brexit-chaos. It seems now that in 2019 the Hungarian industry will defy the unfavorable European trends – as suggested, among others, by he last manufacturing survey by the Kopint-Tárki – but negative surprises may occur during the year.



Manufacturing confidence survey

In the last quarter of 2018, the business barometer reached record high. The index of subjective assessment of the current situation stood at 74, well above the average of the past couple of quarters.



Along with the subjective assessment of the current situatioon, the assessment of prospects has improved as well, even if less spectacularly. 60% of the respondents deems the prospects for this year even better than their current situation. The fact that the shortage of skilled labor has eased somewhat recently probably contributed to this optimist. In Q4, ‚only' 47% of respondents said the labor shortage is the most severe impediment for the operation of their firm, as opposed to the approximately 60% registered in earlier surveys. This may be due technological upgrades, but simple resignation on the part of the management may also play a role in this apparent improvement.

The objective indicators show that capacity utilization stands at 84% – the levels above 80% has become almost general among manufacturing firms, implying getting close to capacity limits. Yet, the production outlook index stands at 69%, a mild improvement compared to the previous quarter. The stock of orders is somewhat lower than in the last autumn. The confidenc index, an aggregator of objective indicators, is at 60 points, somewhat below the level what one would expect, based on subjective indicators, due to the stock of orders, while the level of output inventory and the production output is very favorable. Still, the overall trend of the confidence index still points upward.

On the whole, manufacturing sentiment is eccellent at the moment, and short-term prospets seem also bright. The question is, however, how suppliers will be able to adapt to the global economic slowdown and possibly rising interest rates, and whether the inflow of EU funds will be sufficient to offset these threats.

Construction

Construction output continued to grow at a galloping pace, by 21 percent, in the last quarter of 2018. As a result, the annual average growth rate was 22.3 percent in the last year, which also means that **the cumulative rise in the past two years was nearly 60 percent**. Even so, the level of output in 2018 was still below the peak level of 2005 – although only by 3 percent – that is, the construction sector has not yet fully recovered from the long period of decline.

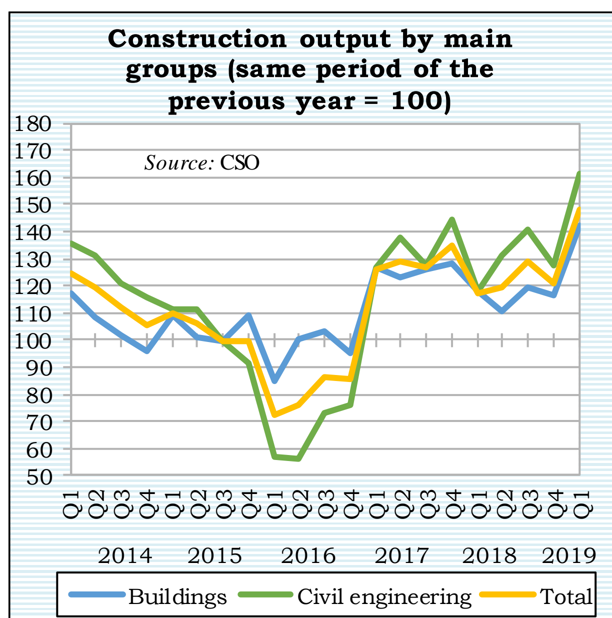
Civil engineering remained the primary driver of growth, with a growth rate of 31.4 percent in 2018, but the construction of buildings also expanded by 16 percent, a steep pace that is still represents a deceleration of about 10 percentage points compared to 2017.

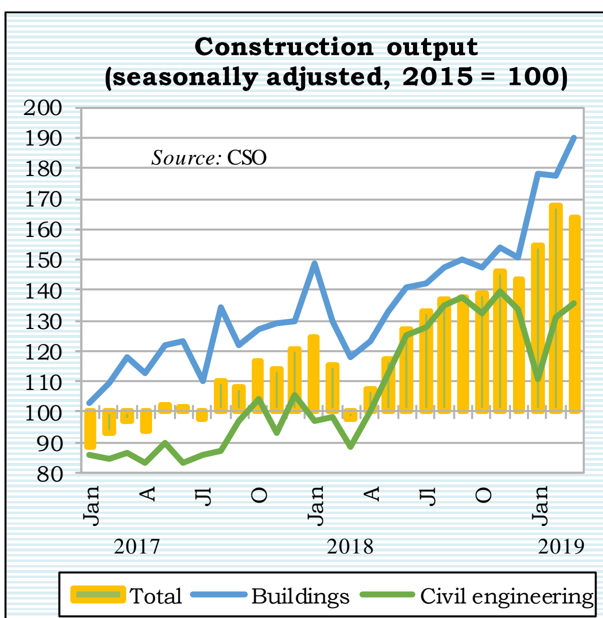
Now it seems that this frantic growth will continue in 2019, at least for a while. The civil engineering projects are mostly financed by EU funds and public financing. Since the utilization of EU funds is expected to grow at a somewhat slower pace than in 2018, this would imply a degreee of deceleration in the expansion of civil engineering activity. In the area of construction of buildings, private sources – firms and households – have a larger share. Here, the expansion of building construction may continue at a similar pace as in the last year.

In the light of the first-quarter data, the assumptions about decelerating civil engineering seem moot. Output shot up in both main groups of contstruction: the construction of building grew by more than 42 percent while the pace civil construction growth exceeded 61 percent. Especially the latter is due to an anormous seasonal effect: the seasonally adjusted numbers suggest a much less dramatic – about half as fast – year-on-year growth in civil engineering.

Still, both the evolution of the stock of orders and the value of newly started construction projects point to an eventual deceleration. As the start of this year shows, however, the civil engineering deceleration may occur later than expected.

On the whole, we expect construction growth to **continue at a rate above 20 percent** this year. This implies a marked deceleration in the second half of the year, therefor even





this prediction is not without upward risks. The deceleration is likely to become more substantial in 2020.

Housing construction

In the fourth quarter the year-on-year rise in *the number of dwellings built* moderated to 16.5 percent. In 2018 as a whole the number of newly built dwellings was up 22.9 percent, a significant slowdown compared to the 44 percent in 2017. The absolute number of the new dwellings was 17,681, still never even close to the peak level of nearly 40,000 in 2004. While the output of the construction sector as a whole *almost* reached its former peak level, housing construction still has a long way to go to achieve the same.

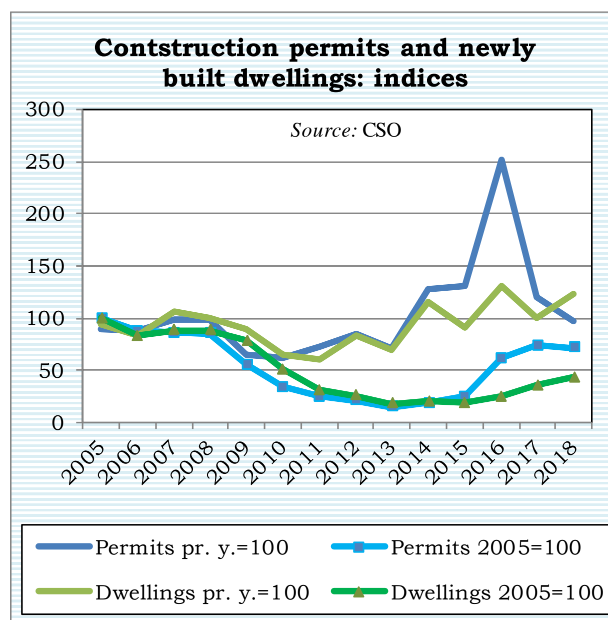
The number of building permits and notifications – after years of growth – slightly decreased in 2018, implying that – for now – now new impetus for the present boom is on the horizon. This implies that the boom will end before the housing construction sector could come close to its former peak level.

This, however, has no immediate effect on the present year. At the moment, the output growth is constrained not so much by demand but by the limitations of available capacity and staff. The completion of several thousand dwellings will be deferred by at least one year compared to the original deadline. The prolongation of the preferential VAT rate (to housing projects that have been registered up to November 2018) increases the number of delays: the developers are not forced to rush ahead to complete the projects at any cost.

Housing demand is still strong but some deceleration is indicated by the less intense year-on-year rise in the price of new dwellings in the second half of 2018 (about 3-4 percent) than anytime since the second half of 2015.

We expect housing construction activity to expand at two-digit pace in 2019. A more marked deceleration is expected afterwards, as the housing projects notified until November 2018 are gradually closed. This implies that the ebbing of the housing construction boom will coincide with the ebbing of the more general construction boom based on the utilization of EU funds, which will accentuate the cyclical fluctuation of construcction activity.

It is hard to estimate how profoundly the further extension of the scope of the Family Home Allowance Scheme (CSOK) from July 2019 will affect the effective demand for new homes. At the moment we assume that it will not offset the negative impact of the phasing out of preferential VAT rate of housing consctruction, hence it will not prevent the flattening of the housing construction boom in the coming year.



3.2. Final use of GDP

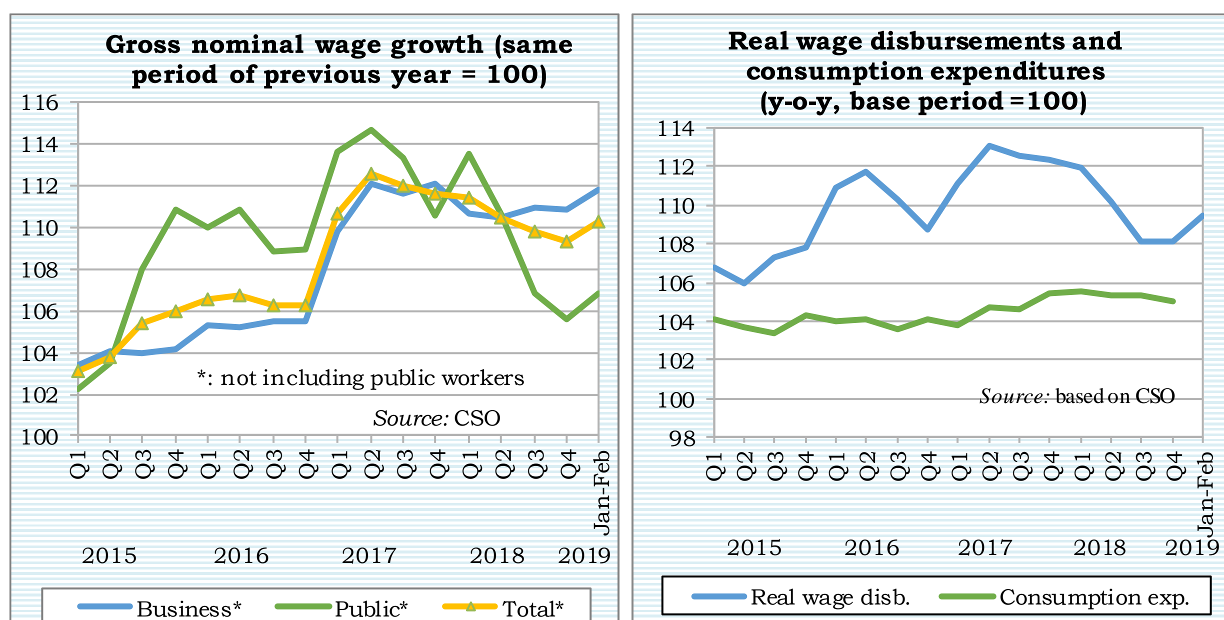
3.2.1. Househole income, consumption and savings

In 2018, wages grew by an annual average of 10,2 percent, not including public workers. Business sector wages were up 10.8 percent, driven by severe labor shortage and by the 8 and 12 percent raise, respectively, of basic minimum wage and wage minimum for qualified workers. Public sector wages rose at a lesser pace, by 9 percent, with a marked slowdown from quarter to quarter. In the last quarter, education and health care employees saw a marked deceleration in the growth of their wages.

With *public workers* included, overall wages were up 11.3 percent in the last year, due to the upward composition effect of the steep decrease in the number of public workers. **real wages grew by 8.3 percent while real wage disbursements were up 9.6 percent. This is still respectable, although slower than in 2017 by almost 2 percentage points.**

A further deceleration is expected in 2019, even if no such deceleration is visible in the data about the first two months. The period of fast wage growth in the public sector is clearly over, especially in the health and education sectors. The situation is more ambigous in the business sector: wage growth even accelerated somewhat in January-February compared to the yearly average in 2018. This acceleration is somewhat surprising since the qualified wage minimum was raised less drastically in 2018 than in the last year. A large part of the multinational segment of the business sector still can afford double-digit wage raises, as the successful strikes in January and February show. The domestic firms' capacity to raise wages, on the other hand, is gradually exhausted. Hence we expect a degree of deceleration of business sector wage growth as well during the rest of the year. **On the whole, overall nominal wages may grow by 9-9.5 percent in 2019 as a whole.** This suggests a real wage growth deceleration of 2.5-3 percentage points in 2019 compared to 2018.

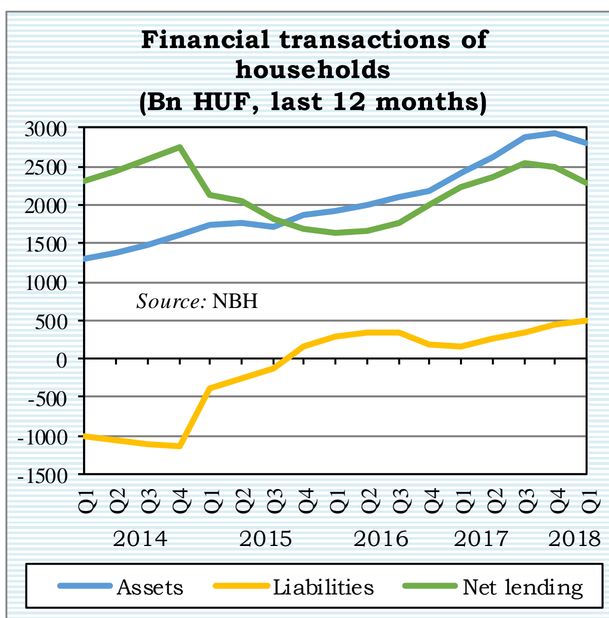
Despite the somewhat more moderate growth of real wage disbursements, ***household consumption expenditures*** were up 5.3 percent in 2018, a speedup from thee 4.7 percent in 2017. This growth rate is roughly proportional with our estimate regarding the overall household income growth for the last year.

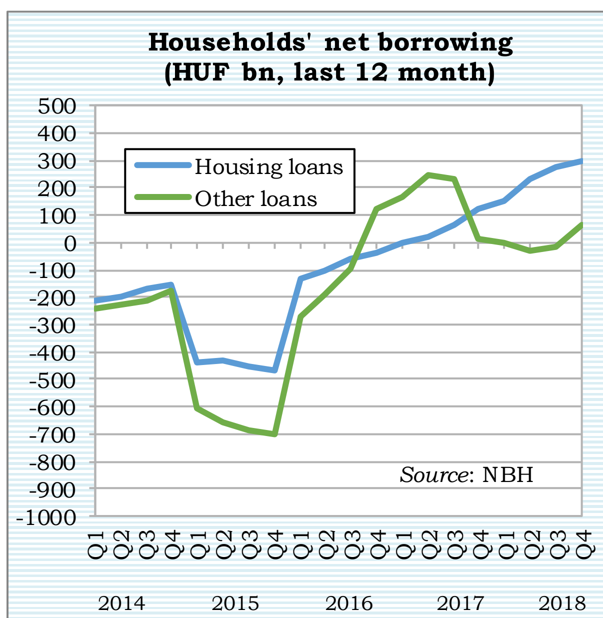


This year, consumption growth will slightly slow down along with real wage growth: private consumption expenditures may expand at a rate below 5 percent while actual individual consumption is to grow by nearly 4.5 percent.

The net financial savings of households kept rising until the last quarter of 2018, and the annual sum of households' ***net financing capacity*** was 25 percent higher in the last year than in 2017. This rise was due to a spectacular, 35 percent growth in gross savings (primarily in cash and deposits), which was only partially offset by the rise of net borrowing. As for the latter, mostly housing loans pushed net borrowing upward while consumption loans decreased on an annual basis until the last quarter – that is, repayment surpassed new borrowing for most of the year. In the last quarter, the growth of gross savings decelerated while the growth of net borrowing did not, which suggests a possible trend turn.

The cumulative savings rate (as a percentage of GDP) was 6 percent in 2018 as a whole, well above the 5.2 percent in 2017. But the cumulative rate (of the last four quarters) peaked in the third quarter, with a slight decrease in the fourth quarter. This ***continued in the first quarter of 2019***, according to the preliminary data. The cumulative savings rate slipped to 5.3 percent of GDP while the rate in the first quarter alone was only 3.8 percent. This is not surprising since consumption growth is expected to somewhat outpace income growth in this year. The cumulative savings rate may drop below 5 percent by the end of this year.





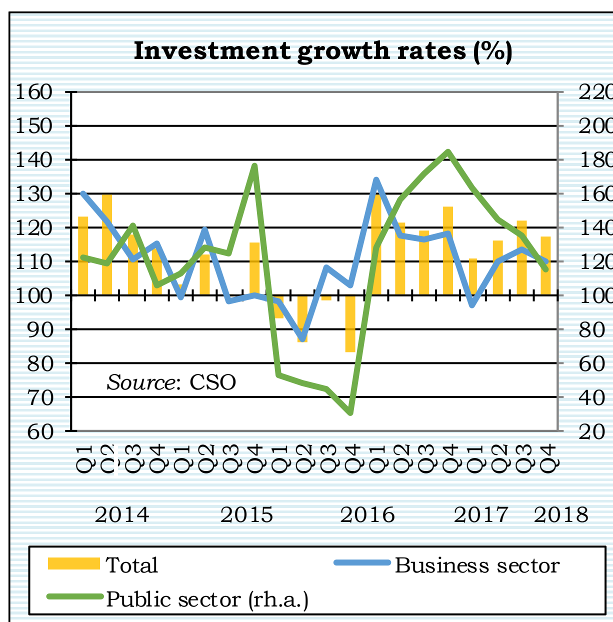
3.2.2. Investments

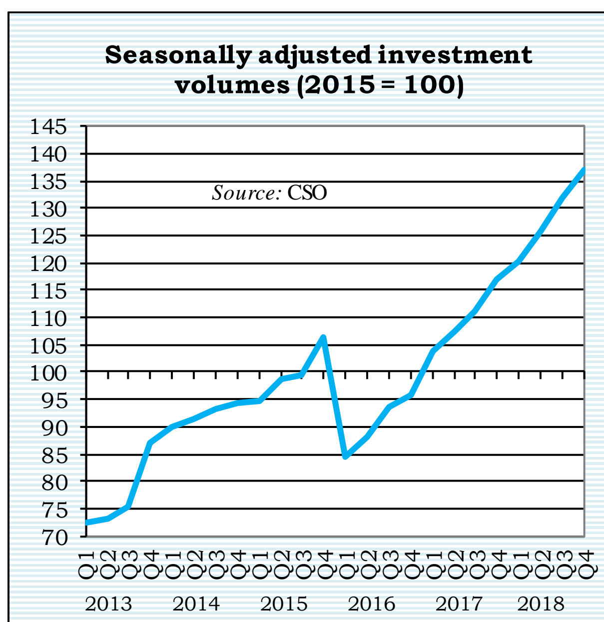
In the last quarter of 2018, investments grew at a by a year-on-year 16.9 percent, a rate almost identical with the 17.1 percent rate of the whole year. This pace fell below the nearly 24 percent seen in the previous year, but still, 2018 was a good year in terms of investment dynamism.

The structure of growth was not bad, but neither was it ideal. According to the NBH calculation, private business firms contributed to overall growth, along with households, but the contribution of government investments and especially the 'quasi-fiscal' sector (government-related firms) was larger. This means that much of the 8.8 percent growth of investments of medium and large firms, shown by CSO data, is due to government-related firms. The latter is shown, among others, by the drastic growth of *transport investments* (by more than 33 percent). State investments expanded by 30.9 percent in 2018, although here the growth rate decelerated to about 15 percent in the fourth quarter. Household investments also grew at a steep rate, mostly due to expanding housing investments.

State and state-related investment growth (especially in public administration and healthcare) **was buttressed by the spending of EU funds in 2018**.

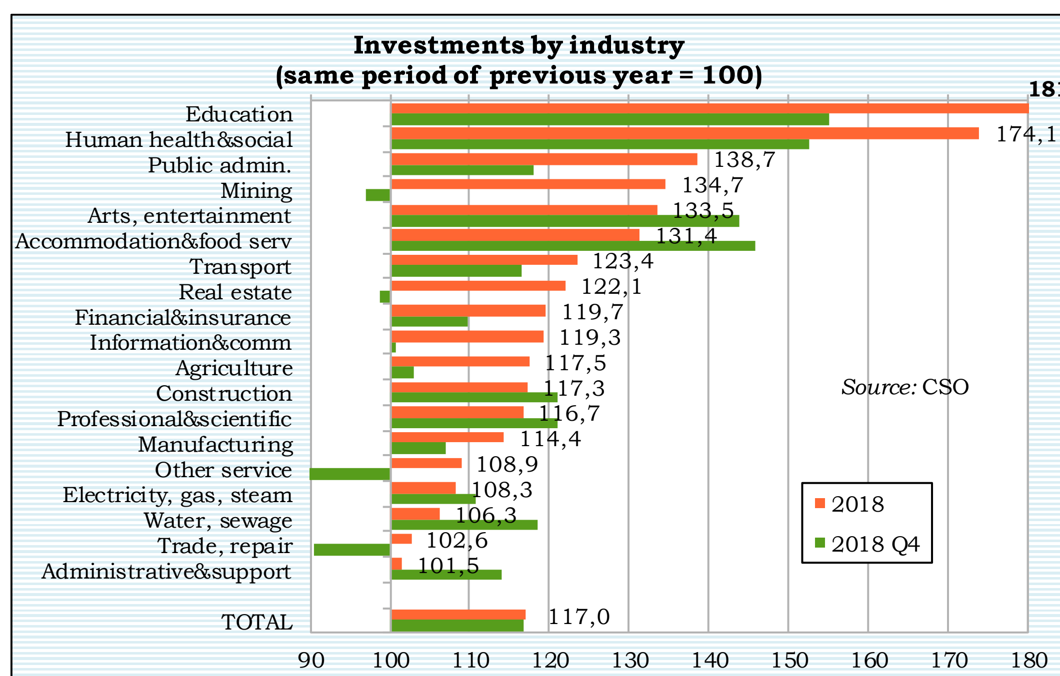
All this implies that the growth of private business investments was less then outstanding in 2018, even if they gathered speed in the second half of the year. *Manufacturing investments* only grew by 6.3 percent, despite the impressive leap in the fourth quarter. While investments rose in the majority of manufacturing branches, the pace of growth remained moderate, according to the CSO, with the exception of rubber, electrical and electronic industries.





The prospects for this year largely depend on to what degree the growth in the utilization of EU funds will decelerate. Public investments may contribute to overall investment growth to a lesser degree than in the last year. The sharp deceleration of public investments – and especially the negative growth of public administration investments – in the fourth quarter underlines this assessment. On the other hand, a sharp upturn in building investments in the first quarter of 2019 – suggested by the almost impossibly large growth rates in construction – may reflect a temporary halt or turnaround of this tendency.

On the other hand, the sizeable EU funds distributed – but not yet spent – among *private firms* may give a temporary boost to private business investments. In any case, private firm investments are liable to expand further amid decelerating but still dynamic economic growth and high capacity utilization, albeit the pace of growth will probably remain moderate. Besides, household investments (predominantly housing investments) are expected to keep growing at a good pace. On the whole, **investments are likely to expand at a rate somewhat above 10 percent in 2019.**

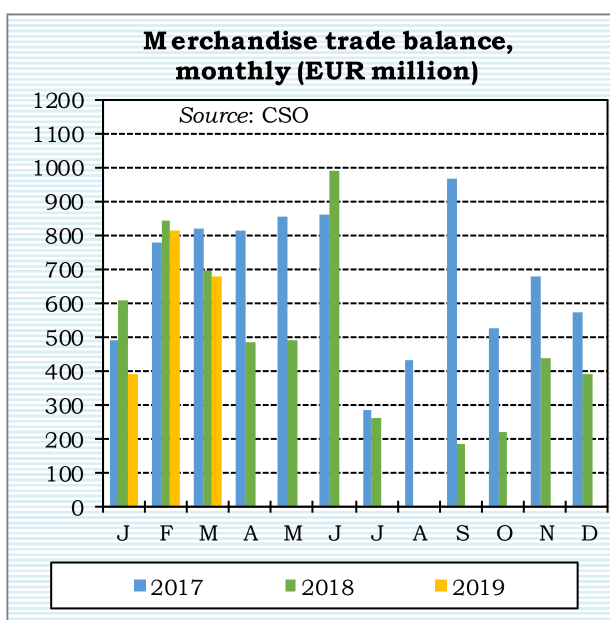


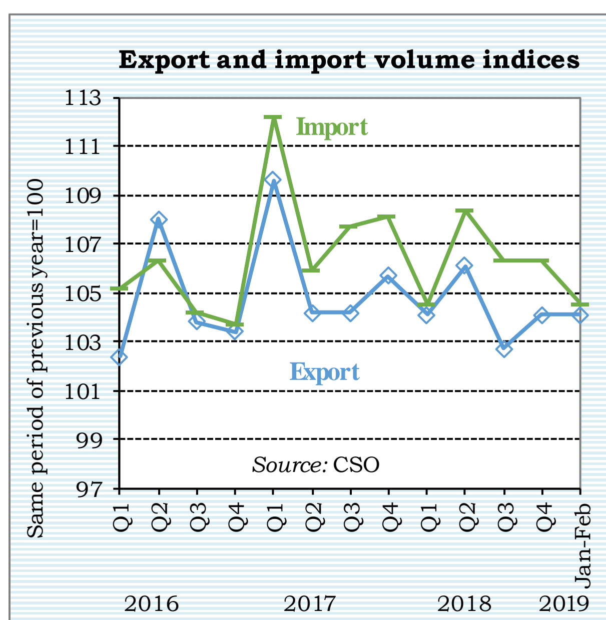
3.2.3. External trade

Although the four-quarter trends were somewhat less depressing than those in the third quarter – export growth revived somewhat while import growth kept growing at a comparable pace – the steep decline of trade surplus continued in October-December as well. In 2018 as a whole, **merchandise net export amounted to only 5.6 billion euro**, a decrease of more than 30 percent compared to the previous year. Even if the deterioration of terms of trade (by 1 percent) also compounded the negative trend, the decrease was primarily caused by a significant negative gap of 2.1 percentage points between export and import volume growth.

The volume of merchandise import grew by 6.3 percent, which is not very surprising since domestic demand peaked in 2018, with the fastest growth rate of final domestic used in the past twenty years. The import of manufactured goods and of machinery and transport equipment expanded by more than 8 percent and 7 percent, respectively. But the substantial rise in the import of food products (at a rate above 5 percent) also underlines the expansion of consumer demand.

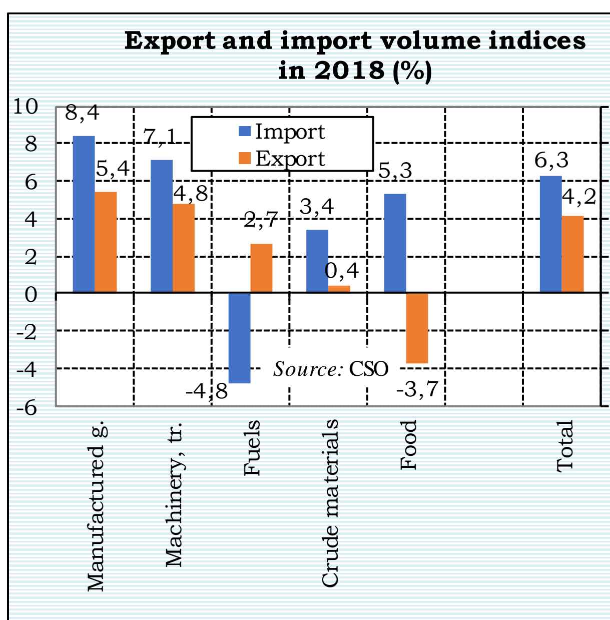
On the other hand, export growth was hurt by an external fact, namely the unfavorable weather in 2017 that caused a drop in agricultural production in that year. As a result, much of 2018 was characterized by a fall of food export, after a strong growth in the previous year. But other factors also were at work too: export growth lost steam in three other main commodity groups as well compared to 2017. Especially the sharp fall in the growth of fuels and electricity export (mostly due to decreasing electricity export), and a less drastic deceleration of the export of manufacturing goods (primarily due to the contracting export of professional, scientific and controlling instrument) were the main factors behind the disappointing export growth performance.

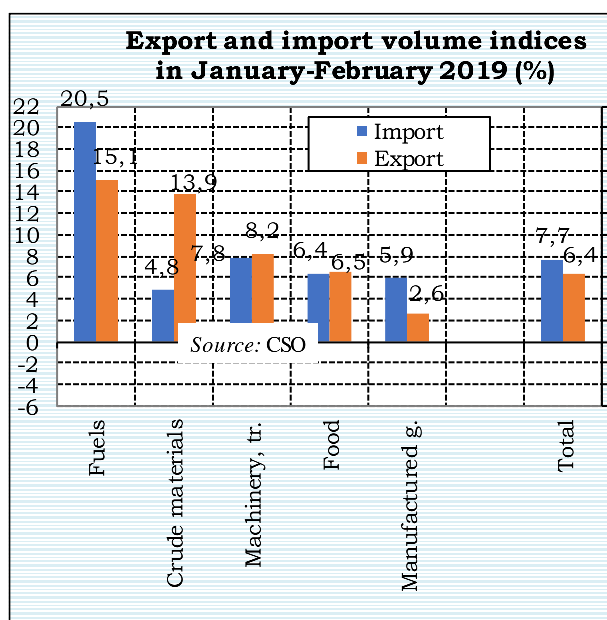




The data about the **first three months of 2019** suggest some improvement compared to the last year, at least in terms of a slowdown of deterioration. Export growth picked up pace: the preliminary data suggests that the volume probably rose at a rate above 5.5 percent in January-March. At the same, import may have grown at a similar pace as in 2018. As a result, the external trade surplus – in euro terms – decreased by 12 percent on an annual basis in the first quarter, which means that the pace of deterioration eased considerably compared to the last year.

We expect that these trends will continue during the rest of the year. With both private consumption and investment growth slowing down to various degrees, import growth is unlikely to gather additional speed – even some deceleration may take place. On the other hand, the strong upturn in industrial export sales will help merchandise exports to keep growing at a higher rate than in 2018, even though how much higher is hard to tell at the moment. We expect the trade surplus to dip further in 2019 to about EUR 4.5 billion (from the EUR 5.6 billion registered in the last year), but a more favorable outcome – an annual surplus of near EUR 5 billion – is conceivable as well.





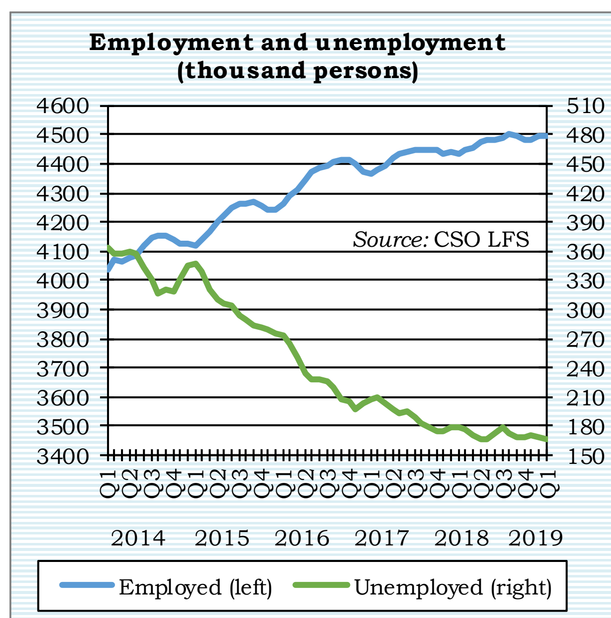
3.3. Employment, unemployment

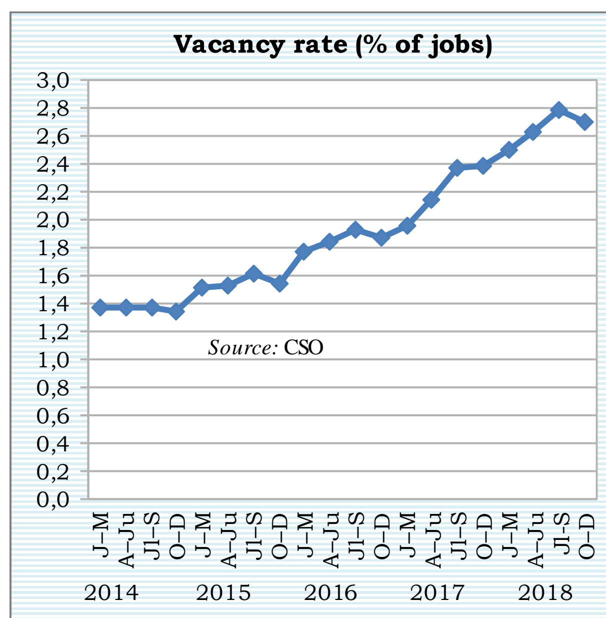
According to the labor force survey (LFS), the number of employed increased by a modest 1.1 percent in 2018, but the pace of growth was even slower in the second half of the year (0.8 percent). Employment growth picked up pace again, however, in the first quarter of 2019, with a rate of 1.4 percent for the age group of 15-74. Part of this acceleration was due to statistical base effect, however. Also, an atypical jump in the number of employed abroad played a role.

But it is still true that the decline in the number of public workers is a crucial factor that keeps down employment growth: without public workers, employment rose by 2.3 percent year-on-year in the first quarter, virtually the same pace as in 2018. Yet, we expect the *slow drying up of employable workforce* to manifest itself in the coming quarters: the number of employed will probably grow by less than 1 percent in 2019 as a whole.

The *unemployment rate* basically has stopped decreasing: since the second quarter of the last year: it reached 3.6 percent in April 2018 and has remained there since, with occasional relapses into 3.7-3.8 percent. The average rate was 3.7 percent in 2018, followed by 3.6 percent in the first quarter of 2019. In itself, such a low rate would be not much to be concerned about, but without public workers, the unemployment rate would have stood at 6.1 percent in the first quarter. It is unlikely that the average annual unemployment rate can dip below 3.5 percent this year.

The job vacancy rate minimally eased in the fourth quarter to 2.7 percent, from the historic record of 2.8 percent in the previous quarter. This suggests a stabilization of the vacancy rate at a relatively high level. **The simultaneous existence of high level of public works employment and severe labor shortage implies that the Hungarian labor supply has serious structural deficiencies**.





3.4. Fiscal, monetary and financial developments

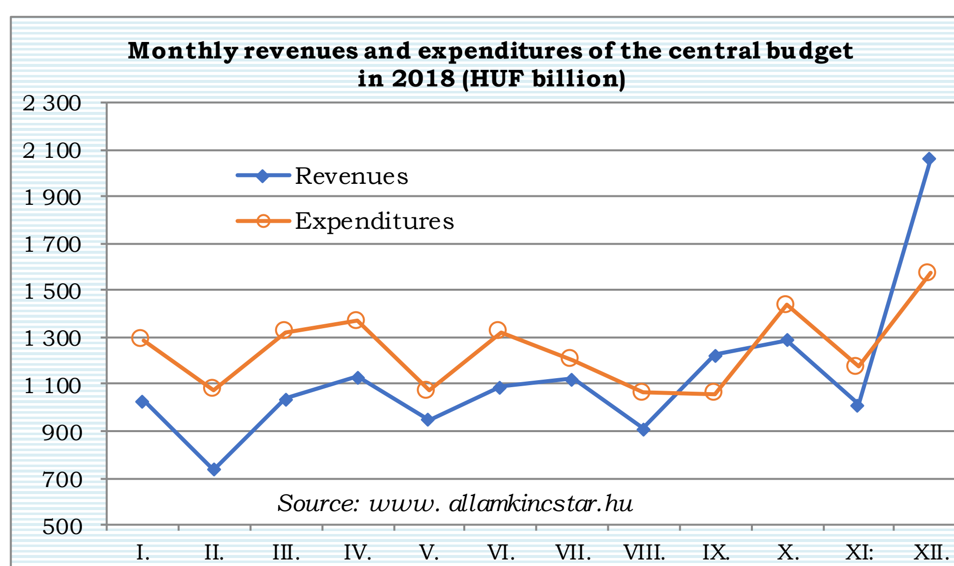
3.4.1. Fiscal trends and outlook

Fiscal balance in 2018

The cash flow deficit of the central subsystem was HUF 1,445 billion in 2018, only slightly above the target. Without a large windfall in December, primarily a result of the inflow of a huge chunk of EU transfers, the deficit overshoot whould have been much more severe.

It should be also noted that while expenditures also increased in December compared to the previous months, the jump was less spectacular than in the past years. Among others, the year-end explosion of expenditures related to EU co-financed chapter-administered appropriations did not happen this time. Also, interest rate expenditures were low in December, but even so, the interest rate expenditures for the whole year exceeded the target.

The *accrual-based* deficit, on the other hand, did jump in the last quarter – to 5.8 percent – partly because most of the year-end inflow of EU funds do not appear in the accrual-based fiscal accounts. The annual fiscal deficit amounted to 2.2 percent of GDP, still moderate, but the highest in the last four years.



The fiscal impact of pre-finaning the EU subsidies

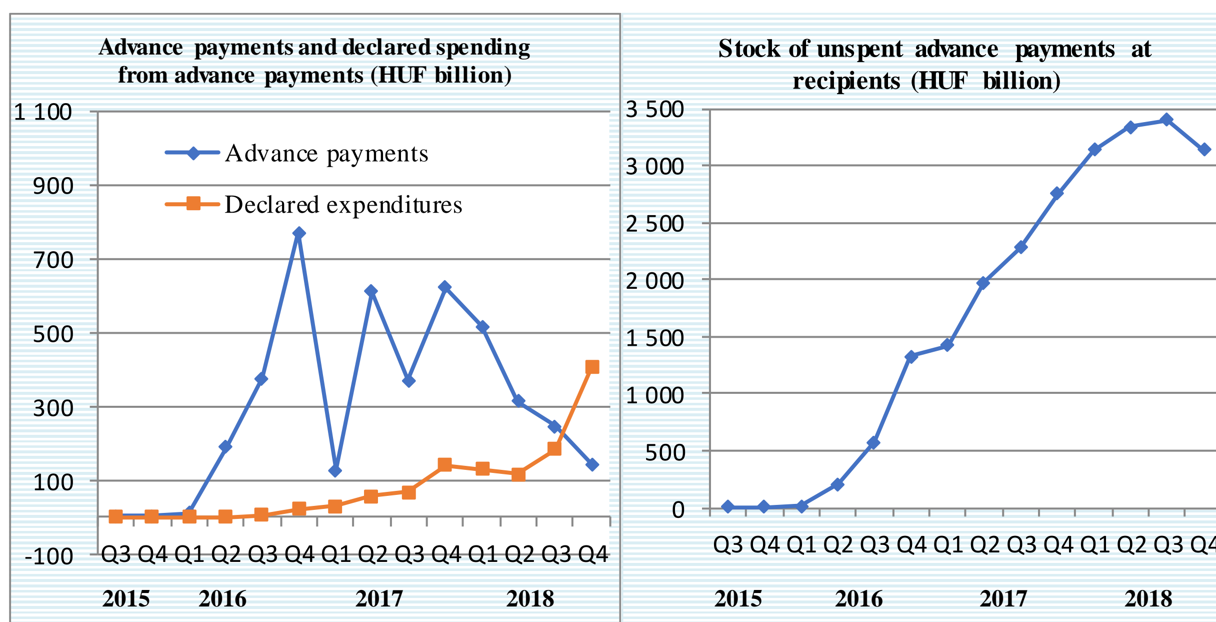
Since 2016, the government has prefinanced a large part of the expected inflow of EU subsidies. This resulted in a significant increase in the cash flow deficit in both 2016 and 2017. The impact was much milder in 2018, due to the arrival of a massive sum from the EU in December. It should be noted that about half of the HUF 480 billion inflow was related to the *previous* (2007-13) budgetary cycle.

In the past years, the EU-related fiscal expenditures regularly exceeded the targets while EU-related revenues fell short of the target by a long shot. In 2016, the government originally planned to spend HUF 871 billion on the operative programmes; this target was later increased to HUF 1,270 billion, while the actual spending was even higher, HUF 1.620 billion.

In 2018, however, both revenues and expenditures fell short of the target by HUF 850 billion. This means that the government put a brake on the pre-financing of EU subsidies. As a result, the cash flow balance of EU-related incomes and expenditures virtually met the target (HUF 520 billion) in 2018.

The pre-financing was reduced partly because the sum of distributed (by the government) but not yet spent (by the recipients) advance payments has been steadily accumulating during the past years.

At the end of 2018 the stock of distributed advance payments waiting to be be spent by the recipients, while slightly below its peak, still stood at HUF 3,100 billion. Since the EU subsidies give a boost to GDP only when they are actually spent by recipients, not when they are distributed by the government, these pent-up funds will give a significant upward push to economic growth this year. Our relatively optimistic forecast about GDP growth in 2019 is in part based on this fact.



Fiscal developments in the first quarter of 2019

By the end of March 2019, the cash-flow balance of the central subsystem of general government stood approximately at HUF 142 billion, less than 15 percent of the annual target.

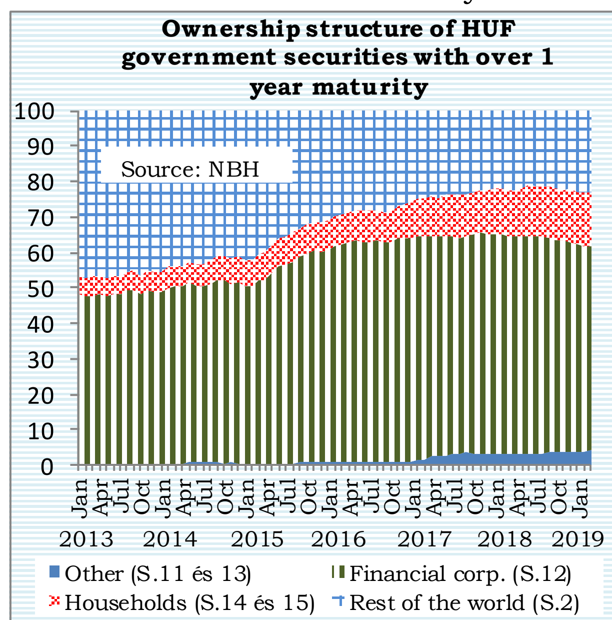
In the first three months, *revenues* arrived more or less according to the plan while and the outflow of *expenditures* is behind the schedule. For example, less than 20 percent of the planned interest rate expenditures, housing subsidies or expenditures on extrabudgetary funds materialized in the first quarter of the year. It is worth noting that the Health Security Fund closed the quarter with a surplus of almost HUF 20 billion.

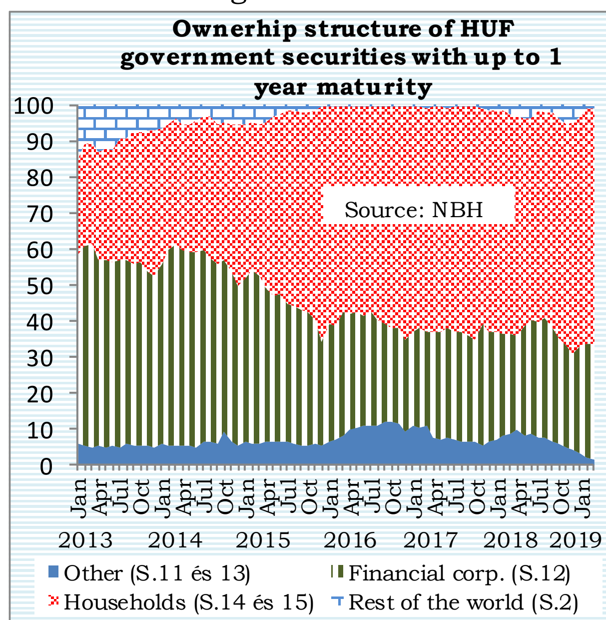
It would be premature to draw far-reaching conclusions from the data on the first three months, but the fact remains that the fiscal outcome of the first quarter was more favorable than expected.

State debt

According to the financial accounts data, the gross consolidated state debt stood at HUF 29,041.9 billion on 31 December 2018. This amounts to 69 percent of GDP, which is a significant decrease compared to the 73.3 percent registered at the end of 2017. This welcome reduction was largely due to the inflow of EU funds at the end of the year on the one hand, and to the higher-than expected real and nominal growth of GDP on the other.

Considering that the EU-related fiscal expenditures (the outflow of advance payments to the recipients) are likely to decrease while the inflow of EU subsidies may increase, even if slowly, the debt-to-GDP ration is expected to continue to decrease in the future. The share of FX-denominated debt within the overall central budget debt eased to 19 percent by the end of 2018. At the same time, the share of retail government papers with short maturities and held by households continued to grow.





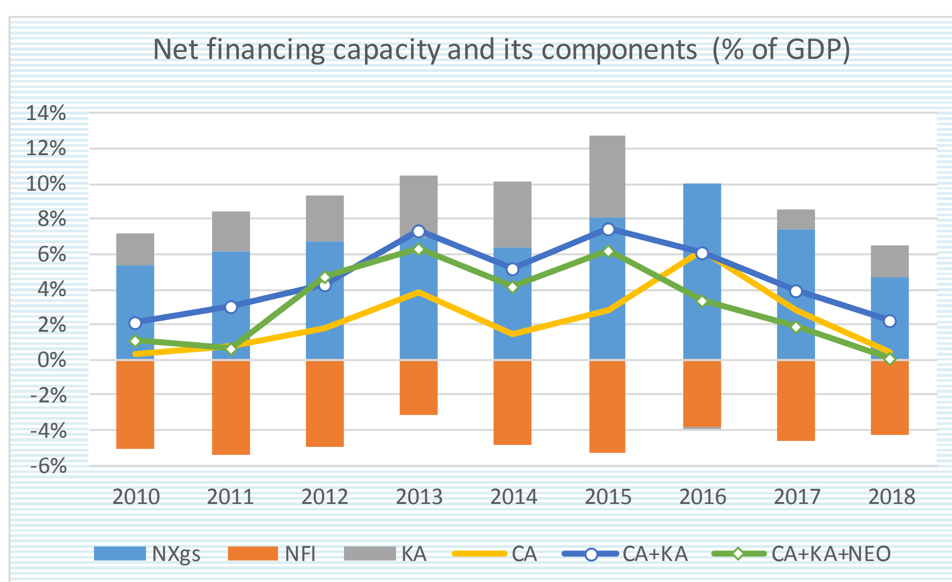
3.4.2 Balance of payments and net external liabilities

Current account

In the second half of 2018, the current account balance was negative for two consecutive quarters, the first time in the past decade. The cumulative current account deficit in the third and fourth quarters was nearly EUR 0.6 billion, a substantial deterioration compared to the EUR 1.2 billion surplus in the second half of 2017. This deficit was clearly a result of the year-on-year deteriotation of EUR 2.2 billion of merchandise trade balance, to a deficit of EUR 1.8 billion, in the second half of the last year. The balance of services did not change much while the deficit of net incomes even decreased somewhat. At present, we expect the current account balance to remain negative in 2019, with an annual deficit of 0.5-1 percent of GDP.

As can be seen in the chart below, the combined surplus of the trade of goods and services (as a percentage of GDP) has been contracting continuously since 2016, which means that the last year's developments are part of a longer trend. What is not showin in the chart is that one component of the combined external trade balance – net services – remained steady at about 6 percent of GDP. This means that net merchandise trade was the factor that single-handedly pushed the combined balance into negative territory. Merchandise trade trends were also responsible for most of the fall of the overall current account surplus from 6.2 percent of GDP in 2016 to 0.5 percent in 2018.

As for the other main component of current account, the balance of incomes, the slight decrease of net income deficit was mainly due to the somewhat reduced outflow of incomes related to inward FDI in 2018, after a surge in 2017. The amount of income received by Hungarian residents working abroad, on the other hand, decreased somewhat. It is worth noting that this is not an indicator of the evolution of remittances



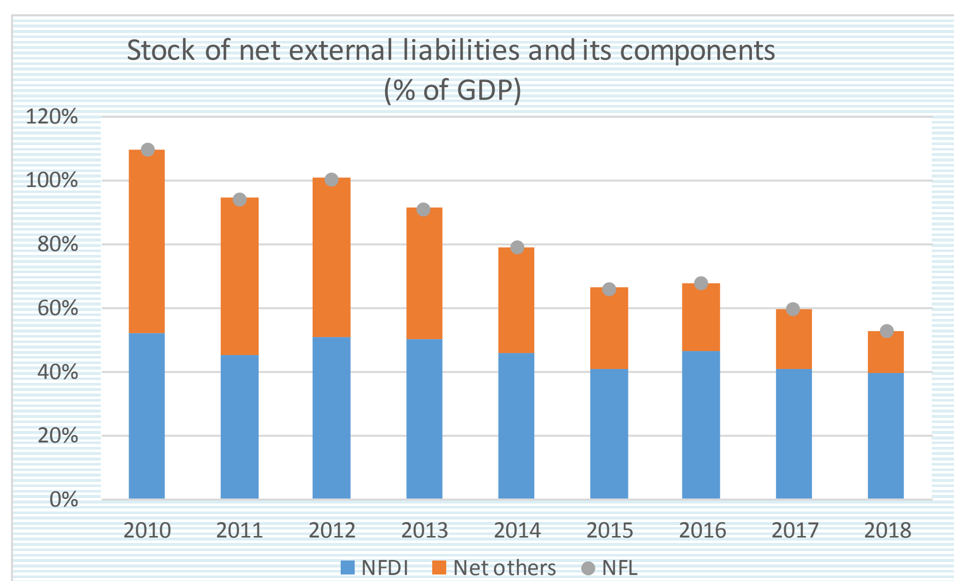
Source: Calculation based on NBH-data

Codes: NXgs: net export of goods and services; NFI: net foreign incomes; KA: capital account; CA: current account (CA=NXgs+NFI); CA+KA: combined current and capital account balance (the so-called external financing capacity calculated from above); CA+KA+NEO: financial account balance (the so-called external financing capacity calculated from below, of which NEO is 'net errors and omissions')

since the positive balance of labor incomes is based on the total sum of gross wages and contributions, not the part that was transfered home by employees working abroad.

The external financing capability calculated from above – that is, the combined current and capital account balance – decreased to a lesser degree than current account balance, due to a surge in capital balance to 1.8 percent of GDP, a result of the increased inflow of EU transfers. On the other hand, the financial account, the indicator of the financing side of the balance of payments, dropped to zero in 2018. This seemingly suggests that the decrease of net external liabilities, a trend that began in 2019, has come to an end. The structure of this stoppage is favorable: net FDI inflow amounted to 2.8 percent of GDP, countered by an almost identical net outflow at other items.

This picture is contradicted, however, by stock data, displayed on the chart below. The stock of both components of net foreign liabilities (NFL), that is: net FDI inflow (NFDI) and other net liabilities, decreased as a percentage of GDP in 2018. This implies that there was no halt in the decreasing trend of foreign liabilities. The solution of this apparent contradiction is that only a part of the changes in the stock of liabilities – namely: the so-called transactions – are recorded in the balance of payments. But the change in net assets/liabilities, a profoundly important indicator from both micro- and macroeconomic points of view, is also affected by reappreciation and other changes in volume as well. These two factors offset the effect of net FDI inflow, hence the stock of FDI (as a percentage of GDP) did not stagnate but actually slightly decreased further in 2018.



Source: calculation based on NBH data

3.4.3. Inflation

In 2018 the annual inflation was 2.8 percent. In the first four months of 2019, by contrast, the year-on-year inflation rate was 3.4 percent, with a spectacular acceleration from to month and a 3.9 percent rate in April. The month-on-month index soared to 0.9 percent. It is clear by now that the annual inflation rate will be significantly higher than in 2018.

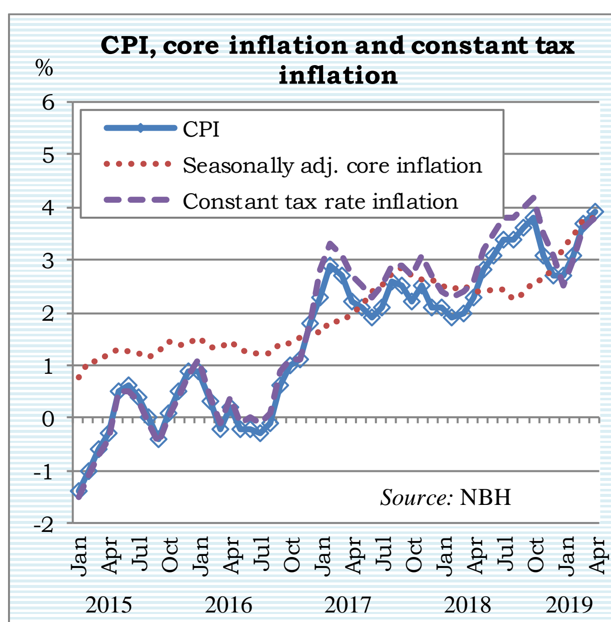
This assessment is underlined, among others, by seasonally adjusted core inflation that rose to 3.8 percent in March and April. Since core inflation is an indicator of domestic inflationary pressures, the high monthly rates suggest that inflation is to remain well above 3 percent even without external price shocks.

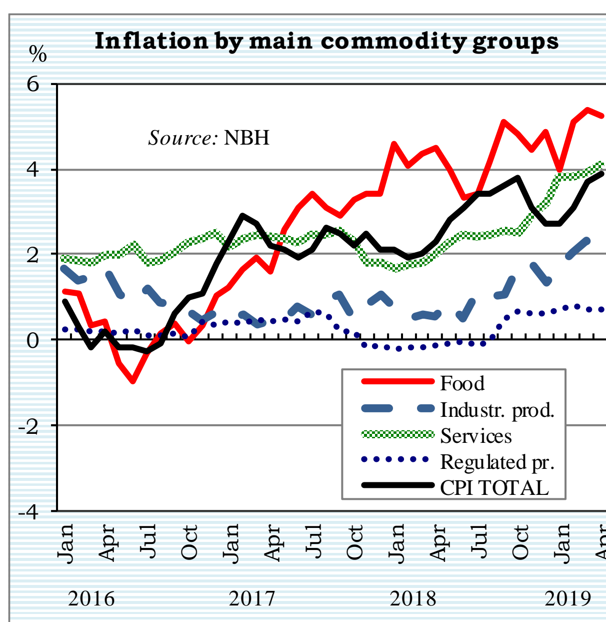
Another warning is that food prices were instrumental drivers of inflation in the recent months.

It should be also noted that sooner of later, domestic demand will join the list of factors that push inflation upward, due to the continuation of strong consumption growth, fueled by rising household incomes. So far, demand was not an important inflationary factor but rising wages are bound to have a spillover effect on prices sooner or later, at least in non-tradable sectors like services.

Since April, oil prices have ceased to be a deflationary factor as well, with the Brent oil price rising again above USD 70/barrel.

On the whole **we expect consumer prices to rise by about 3.5 percent in 2019**





3.4.4. Financial and capital markets

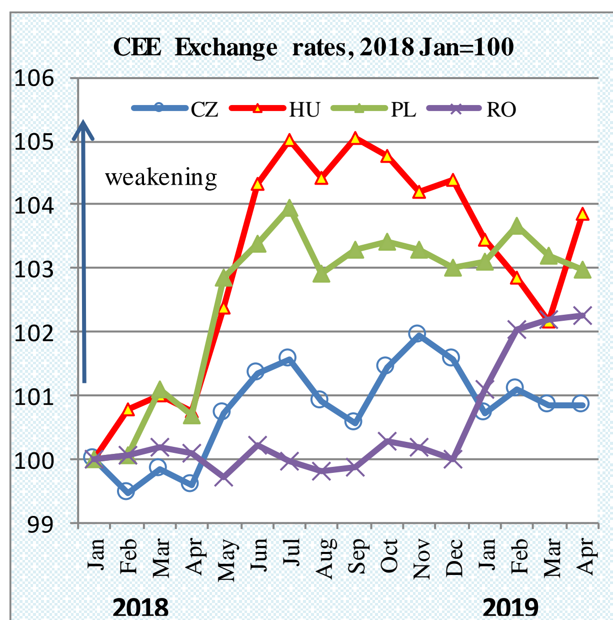
Exchange rate

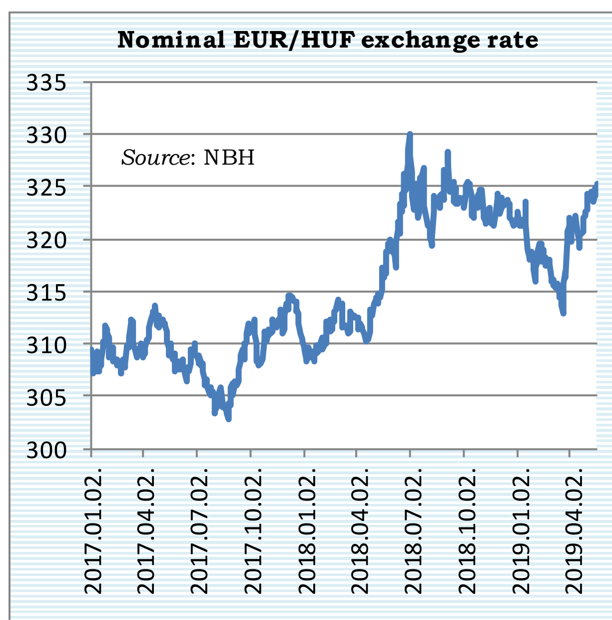
While the forint was relatively stable for two years until April 2018 with the euro exchange rate usually remaining within the 310-315 band, it began spectacularly fluctuating afterwards. The euro exchange rate almost reached 330 EUR/HUF in the summer of 2018 but returned to the 320-325 range by the end of the year and it is still there, a short strengthening spell in March-April notwithstanding.

Just as the sharp depreciation cannot be explained by domestic macroeconomic factors, the following reappreciation had also no evident causes. The fluctuation is largely explained with developments on the US bond market on the one hand and the effect of the Turkish currency crisis on the other by financial analysts – that is with fluctuations in the risk aversion of international investors in general and in their trust in emerging markets in particular.

This explanation, however, is somewhat undermined by the fact that the respective exchange rates of Central Eastern EU member states diverged considerably. The Polish zloty weakened against the euro at a comparable rate to the forint during the past year, even if not quite as much. The Czech koruna, on the other hand, only weakened moderately and the Romanian leu hardly budged amind the financial market turbulences. The Central Eastern European currencies has been moving in various directions in 2019 as well. Simultaneosuly with a weakening of the zloty and the leu (and to a lesser degree, the koruna) the forint strengthened against the euro, even though the Hungarian monetary council did not react to the financial market fluctuations. These unpredictable exchange rate movements are an indication of the general restlessness and volatility of the international financial markets.

The currency market remained largely unaffected by the upgrade of Hungary by both Standard and Poor's, and Fitch in mid-February, which means that these upgrades had already been factored in by the markets.





Government yields

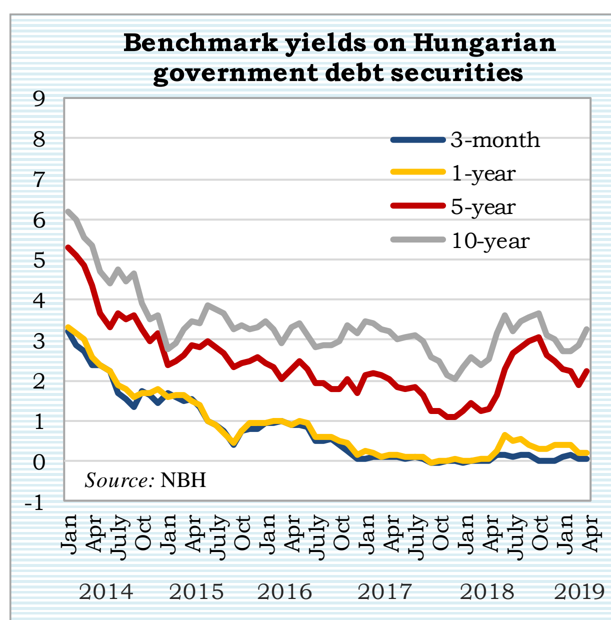
Just as government yields tended to rise along with the weakening of the forint during the last year, the subsequent forint appreciation was accompanied by a decrease in government yields – at least in the case of short yields. Long yields have remained relatively high. But the ten-year yield has not come again close to the previous peak of 3.66 percent in October 2018, even if it has been above 3 percent during most of the past three months. The five-year yields followed a roughly similar trajectory, although at a lower level.

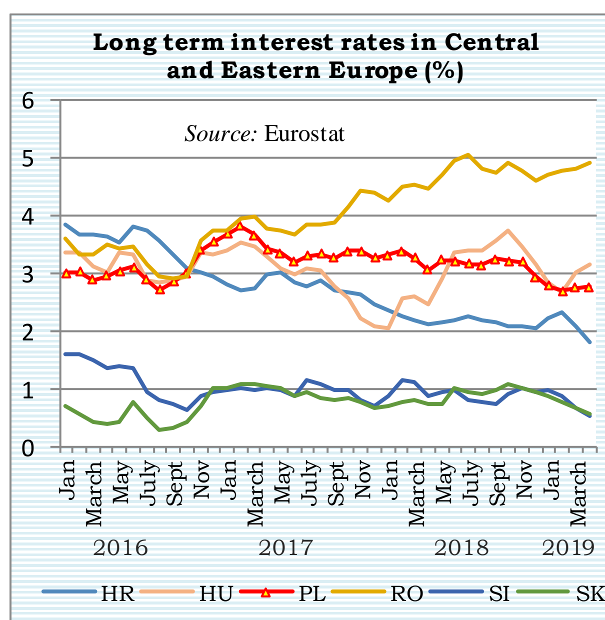
The yield of one-year government securities peaked in May 2018 at 0.62 percent and has been on the decreasing trend since then. It stood at 0.2 percent in mid-May.

The short (three-month) yields turned from negative to positive by the end of last year and reached a local peak at about 0.15 percent in late February. From late March, however, it has remained at a very low level, below 0.5 percent.

On Hungarian government security auctions over-subscription is still typical, which restrains the upward pressures on government yields.

Long government bond yields have diverged in the Central and Eastern European new member states. Since early 2017 Romanian bond yield is the highest; at the end of April, it stood at 4.9 percent, a reflection of the worries regarding the overheated Romanian economy. The Polish long yield has been usually lower then the Hungarian yield during the last weak, although not by far – that was the case at the end of April as well. The Czech ten-year yield stagnated for a while above 2 percent in the last year – after a period of gradual increase – but by January 2019 it dipped below this threshold and has remained there since then. The respective long yields of the two euro countries within the region, Slovakia and Slovenia, are steadily around or below 1 percent.





3.4.5. Corporate and retail lending and interest rates

Corporate lending and saving

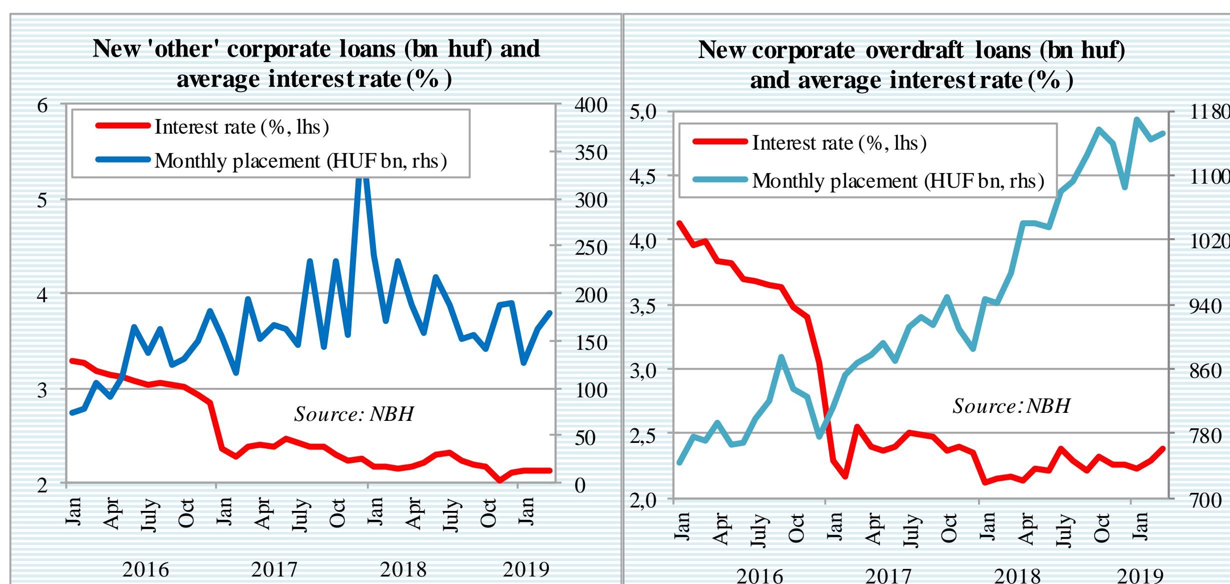
The monthly sums of new corporate *overdraft* loans rose almost without interruption during 2018, rising above HUF 1,000 billion from April and –save the temporary setback in December – above HUF 1,100 from September. The picture is not so clear-cut in the case of new *other loans* (primarily investment loans): the past year saw a fluctuation of about HUF 200 billion in the monthly loan values. On the whole, the stock of loans to non-financial corporations surpassed HUF 7,450 billion in December.

The stock of corporate demand deposits and current accounts rose dynamically up to the summer of 2018, and has largely stagnated since then, around HUF 5,000 billion.

A new credit support construction, the Credit for Growth Scheme Fix was launched by the NBH in January 2019. Its objective is to increase the share of long-term, fixed-rate loans within the overall corporate loan stock. Under the scheme, the central bank provides zero-interest loans with maturity no less than 3 years but no more than 10 years to banks. The banks can lend these sums to SMEs at an interest rate margin of no more than 2.5 percent. The NBH allocated a credit line HUF 1,000 billion to the facility; the additional liquidity generated by the facility is sterilized by the central bank.

In January-March, the share of new loans with rate fixation of less than one year fell to 73 percent from the previous 80-85 percent. It is too early to say whether this is due to CGS Fix.

Interest rates remained low during the recent months. In March 2019, the rates of both overdraft and other loans were slightly above 2 percent**.** The interest rate of overnight deposits stood at 0.01 percent in March, while the average interest rate of deposits with an agreed maturity was slightly below **0.3 percent**.



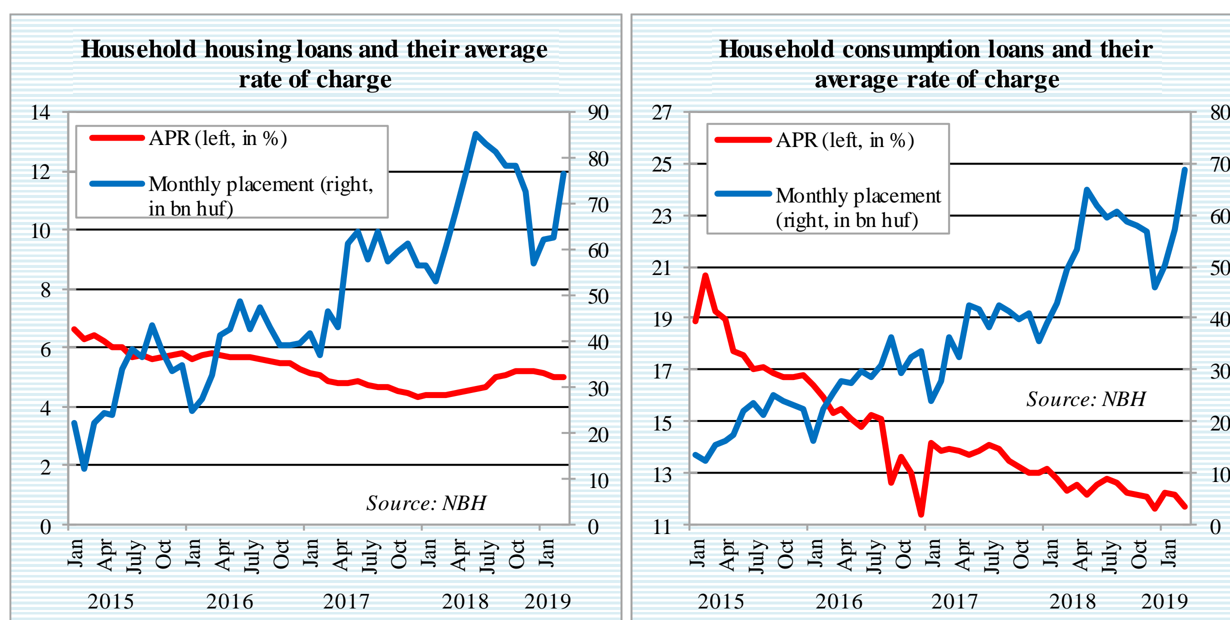
Retail lending

The monthly sum of households' housing borrowing, just as consumption borrowing, reached peak levels in the summer of 2018. (Overdraft borrowing peaked in 2017.) That was followed by a relapse at the end of 2018 from which housing borrowing recovered only partially – although it was not very far from the previous peak of HUF 85 billion in March – but consumption borrowing reached a new record level (HUF 69 billion) in March 2019.

As for interest rates, the APR of consumption loans has been on a decreasing trend in the past years, dipping below 12 percent in last December and in March. Consumption loan interest rates are, however, still pretty high. A welcome development is, on the other hand, the increasing share of new consumption loans with interest rates fixed for at least one year, reaching 76 percent in March 2019.

The APR of housing loans, on the other hand, reached its historical low (4.3 percent) in December 2017 and rebouncing afterwards. The average APR (weighted by the amount of new loans) stood at 5 percent in March 2019. This rebounce and stagnation, however, is entirely due to the composition effect: the share of new loans with floating rates or rates with short-term fixation (within housing loans total) was as low as 5 percent in March 2019, as opposed to the 30-40 percent in former years.

At the same time the share of housing loans with initial rate fixation of 5-10 years surged to a level near 60 percent as opposed to the 20-25 percent seen in previous years. The average APR of such loans was 5.2 percent in March, the lowest level in the past 16 years and not much higher from the average APR of loans with only short-term rate fixation. The slightly higher level of monthly debt payments is a small price compared to the benefit of much lower risk of the loan becoming untenable if interest rates begin to shoot upwards.



Economic Indicators 2011-2018, Forecast 2019 2020

(Percentage change)

	2011	2012	2013	2014	2015	2016	2017	2018	2019*	2020*
GDP AGGREGATES, ANNUAL REAL GROWTH										
GDP total	1.7	-1.6	2.1	4.2	3.5	2.3	4.1	4.9	4.5	3.2
Domestic Demand	-0.3	-3.1	2.2	5.4	2.1	1.0	6.8	7.0	5.5	3.7
Private Consumption	0.7	-2.3	0.5	2.4	3.7	3.4	4.1	4.6	4.5	3.7
Public Consumption	0.0	-0.2	6.6	10.0	0.0	0.9	2.0	-2.1	0.0	0.0
Gross Capital Formation	-3.5	-6.9	5.7	12.4	-1.3	-5.4	17.1	17.2	10.5	5.0
of which: Fixed Capital Formation	-1.3	-3.0	9.8	12.3	4.7	-11.7	18.2	16.5	10.5	5.0
Export	6.5	-1.8	4.2	9.1	7.2	5.1	4.7	4.7	5.5	5.0
Import	4.4	-3.5	4.5	11.0	5.8	3.9	7.7	7.1	7.0	5.7
PRODUCTION INDICES										
Agricultural Production (gross)	11.1	-10.0	12.5	11.4	-2.4	9.3	-5.2	3.6	0.0	0.0
Industrial Production	5.6	-1.8	1.1	7.7	7.4	0.9	4.6	3.6	4.5	4.5
Retail Trade Volume	0.2	-2.2	1.8	5.2	5.8	4.8	5.6	6.6	5.5	5.1
EMPLOYMENT, EARNINGS										
Number of Employed	0.7	1.8	1.7	5.3	2.7	3.4	1.6	1.1	0.8	0.3
Unemployment Rate	11.0	11.0	10.2	7.7	6.8	5.1	4.2	3.7	3.6	3.5
Gross Nominal Wages	5.2	4.7	3.4	3.0	4.3	6.1	12.9	11.3	8.5	8.0
Net Real Wages[a]	2.4	-3.4	3.1	3.2	4.4	7.4	10.3	8.3	5.3	4.7
PRICES, EXCHANGE RATES										
Consumer Price Index	3.9	5.7	1.7	-0.2	-0.1	0.4	2.4	2.8	3.5	3.5
EUR/HUF Exchange Rate (annual average)	279	289	297	309	310	311	309	319	319	319
EUR/USD Exchange Rate (annual average)	1.39	1.28	1.33	1.33	1.11	1.11	1.13	1.18	1.14	1.14
Short-term Interest Rates (3M), eop	7.55	5.33	2.86	1.43	0.80	0.06	-0.01	0.00	0.30	0.50
Long-term Interest Rates (10Y), eop	9.75	6.11	5.61	3.60	3.33	3.16	2.02	3.01	3.50	3.80
BALANCE OF PAYMENTS										
Current and Capital Accounts, % of GDP	3.1	4.3	7.4	5.2	7.4	6.2	3.9	2.2	1.5	1.0
GOVERNMENT BUDGET										
General Government Balance, ESA-95, % of GDP	-5.4	-2.4	-2.6	-2.6	-1.9	-1.6	-2.2	-1.9	-2.4	-2.6
Gross Government Debt, % of GDP[b]	80.5	78.4	77.1	76.6	76.6	75.9	73.3	69.0	68.0	67.0

a The numbers do not take into account the effect of the family tax benefit.
b General government debt, including the balace sheet of Eximbank
* Kopint-Tárki forecast

Source: CSO, NBH

CONTENTS

1. International economy 1

2. Central Eastern European new member states 4

Macroeconomic indicators for Hungary and Kopint-Tárki forecast 10

3. The Hungarian Economy 11

3.1. GDP and its components 13

3.1.1. Production of GDP 15

Industry 15

Construction 18

Housing construction 19

3.2. Final use of GDP 20

3.2.1. Househole income, consumption and savings 20

3.2.2. Investments 22

3.2.3. External trade 24

3.3. Employment, unemployment 26

3.4. Fiscal, monetary and financial developments 27

3.4.1. Fiscal trends and outlook 27

3.4.2 Balance of payments and net external liabilities 30

3.4.3. Inflation 32

3.4.4. Financial and capital markets 33

3.4.5. Corporate and retail lending and interest rates 35

Economic Indicators 2011-2018, Forecast 2019 2020 37