



SLOWDOWN CONTINUES

According to the forecast of GKI Economic Research Co., the slowdown of the Hungarian economy that started in the second quarter of 2015 will continue. The 3.6 per cent growth rate in first-quarter was followed by only 2.7 per cent in the second quarter and summer data suggest a further deceleration. After 3.6 per cent in 2014, the GDP growth rate will be 2.7 per cent in 2015 and around 2 per cent next year, mainly due to the stagnation of investments in 2015 and their decline in 2016. However, internal and external equilibria will be favourable.

Similarly to Romania, Hungary's GDP reached the pre-crisis level in the second quarter of 2015. However, by this time the Polish GDP exceeded the pre-crisis level by almost 25 per cent, and the Slovakian one by more than 10 per cent. While in 2014 the Hungarian economy was temporarily one of the fastest growing ones in the EU, in the second quarter of 2015 the Polish, Czech, Slovak, Romanian and Latvian economies were all growing faster than the Hungarian one.

Global economic growth will be slower than expected due to the probably long-lasting slowdown in China's GDP growth. The boom started in the US is weakening and GDP growth in the EU will be more moderate than expected. This will not be offset by the growth-enhancing effects of low raw material and fuel prices, loose monetary conditions and neutral fiscal policies. Although the Greek financial package has a stabilizing effect on the EU in the short term, political risks are increasing: the EU has yet been unable to find a proper response to the problem of the huge inflow of asylum seekers and conflicts are increasing among member states.

The Hungarian industrial and construction output decreased significantly both in July and August compared to the previous month. The growth rate of export also slowed down during the summer. Although the turnover recorded in retail trade is expanding rapidly, slowdown can be expected in the last four months of the year as the direct connection of cash-registers to the National Tax and Customs Authority became mandatory in September last year. A further deceleration is likely in the coming month and in 2016, primarily as a result of the temporary decline of EU transfers meant for investments and restrained business investments. In addition, the deterioration in export opportunities will also play a part in this. The latter is due to the scarcity of new industrial capacities, the decline in exportable agricultural commodity and the uncertainty of the trends in European business activity, including automotive industrial activity which is particularly important for Hungary.

In the first eight months of 2015 gross earnings increased by 3.7 per cent. In 2015 they are expected to increase by 3.5 per cent. Real wages will rise at a similar rate. Real incomes and consumption are expected to grow by around 2.5 per cent. Wage growth will slow down slightly in 2016, and inflation will be around 2 per cent after stagnation this year. However, the 1 percentage point reduction of the personal income tax will partially offset this. Thus, real wages will rise by 2-2.5 per cent. Real incomes and consumption are expected to grow only by around 1.5 per cent, that is, more slowly than in 2015. Thus, in addition to the decline in investments and the uncertainty of exports, the slight contraction of consumption also contributes to the slowdown of the economy.

The general government deficit in the first nine months of 2015 reached 107.5 per cent of the deficit planned for the whole year. The temporary suspension of EU transfers played an important role in this. However, it has already ended. The realization of the planned deficit (2.4 per cent of GDP in 2015 and 2 per cent in 2016) is uncertain and the actual deficit will likely to be slightly higher in both years. The external balance improved further in the first half of 2015, and the current account surplus and the EU transfers received also went up. Next year, however, the latter will drop substantially.

THE FORECAST OF GKI FOR 2015-2016

Description	2013	2014	01-08 2015	2015	2016
				forecast	
1. GDP (%)	101.9	103.7	103.1**	102.7	102
2. Industrial production (%)	101.4	107.6	106.6	106.5	5.0
3. Investments (%)	107.2	111.2	100.4**	100	95
4. Construction services (%)	109.6	114.2	104.7	103	102
5. Retail trade turnover (%)	101.9	104.1	106.0	105	102
6. Exports (current prices in euro, %)	101.7	103.9	107.4	105	103
7. Imports (current prices in euro, %)	102.0	104.3	105.6	103	101.5
8. Foreign trade balance (EUR billion)	6.6	6.4	5.3	8.5	9.5
9 Balance of the current and capital account (EUR billion)	7.6	6.3	4.8**	8.0	7.5
10 Average exchange rate of euro (in HUF)	296.9	308.7	309.0***	310	320
11 General government deficit* (HUF billion)	929.2	825.7	955***	900	700
12 Index of average gross earnings	103.4	103.0	103.7	103.5	103.3
13 Consumer price index	101.7	99.8	99.7***	100	102
14 Consumer price index at the end of the period (corresponding month of the previous year=100)	100.4	99.3	99.6***	101	102.5
15 Rate of unemployment (at the end of the period, %)	9.1	7.1	6.4****	7	6.8

* Cash flow basis, without local governments

** First half of 2015

*** January–September 2015

**** July–September 2015

Sources of actual data: CSO, NBH, NGM

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