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No more deterioration by autumn?

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank recession is expected to bottom out in the second or the third quarter of 2009. However, the recovery thereafter will not be as spectacular as the downturn was. Actual figures relating to the first quarter are worse than previous forecasts all over the globe, yet the world market panic has eased. Confidence indices indicate pessimism both in the EU and in Hungary, but there has been some improvement. Hungary?s GDP is expected to decline by about 5.5 per cent, the current account deficit is set to decrease markedly and internal disequilibria are likely to be in line with international requirements.

In the past 50 years the global economy fell into such a recession for the fourth time ? after 1975, 1980 and 1992 ? that hits the developed countries simultaneously. GDP in the US economy fell by 2.6 per cent in the first quarter of 2009, that in the EU by 4.4 per cent year-on-year. Within the EU, the contraction of the GDP reached two-digit levels in the Baltic states, 6.9 per cent in Germany and 6.4 per cent in Hungary.

With the exception of agriculture, output decreased in all sectors of the economy in the first quarter. The drop in industry is the consequence of contracting exports (26 per cent), however, domestic sales went down by 7 per cent as well. Output in the manufacture of motor vehicles and metallurgy fell by almost 40 per cent, that in the production of electronic devices by 23 per cent. Energy consumption in the economy was 8 per cent lower than in the first quarter of 2008. Industrial production fell by 5 per cent in April even if compared with March, however, after sell-off of inventories, many companies return to five working days per week by the beginning of this summer. In March the construction industry performed better, however, reduction in retail trade turnover even accelerated. Interestingly, gasoline sales went up, which is probably the consequence of expanding shopping tourism made attractive by the weak forint. This is in line with the recorded 5 per cent rise of foreign visitors, while the occupancy rate of hotels and pensions has been continuously decreasing.

With EUR0.6 billion, foreign trade surplus has been substantial already in the first quarter. Shortages in financial sources enforce the improvement of external disequilibria. The external financing requirement is likely to drop to EUR2 billion or 2.2 per cent of GDP in 2009 from the 6-8 per cent level in the past years. Foreign trade surplus increases substantially as a result of contracting imports, and profit repatriation, too, declines as profits fall, although interest payments rise. Net EU transfers climb to about EUR2.5 billion in 2009 from EUR1.1 billion in the previous year. The EUR2 billion deficit is to be financed mostly by the IMF-EU stand-by loan.

From mid-2009 on, the expected rise in VAT and excise tax rates will temporarily accelerate inflation. This causes a 2-3 per cent increase in the price of food. However, contracting demand somewhat holds back the intentions of businesses to raise prices. Wearing apparel and durable consumer goods will only be slightly more expensive, despite the weak forint and the VAT rate increase. The prices of luxury goods rise since not only VAT rates increase, but excise tax rates as well. In the case of energy carriers, the decline in subsidies and the tax changes push up prices, with the exception of district heating, the tax content of which decreases. Declining international energy prices would enable the decrease of the price of natural gas. However, as earlier price increases did not reach the necessary levels, the government accumulated a significant amount of debt vis-?-vis gas distributing companies. As a consequence of this, the price decrease is postponed. The prices of central and local government services (transportation, communal services) will incorporate the VAT rate increase. Nevertheless, business services can only partially shift the extra burden on customers. As a result of the tax rate increases in the middle of the year, the rate of inflation may temporarily be close to 7 per cent by the end of 2009, the annual average rate of inflation is forecast to total about 4.5 per cent.

Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2009

	2006	2007	2008	Jan-Mar 2009	2009 (forecast)
1. Volume of GDP (previous year=100)	104,1	101,2	100,6	93,6	94,5
2. Industrial production (constant prices, previous year=100)	110,1	108,1	98,9	76,5*	86,0
3. Investment in the national economy (constant prices, previous year=100)	93,8	101,5	97,0	92,3	90
4. Construction (constant prices previous year=100)	98,4	85,9	94,9	95,9	95,0
5. Retail trade (volume index, previous year=100)	104,4	97,0	98,2	95,4	95,0
6. Exports (current prices in euro, previous year=100)	116,6	115,7	105,6	73,7	88
7. Imports (current prices in euro, previous year=100)	113,9	111,9	105,6	71,5	85
8. Trade balance (EUR billion)	-2,4	-0,1	-0,2	0,6	2,0
9. Balance of the current and capital account (EUR billion)	-6,2	-5,4	-7,8	-	-2,0
10. Average exchange rate of euro (forints)	264,3	251,3	251,2	297,0*	290
11. Deficit of the general government (cash flow basis, without local governments; billion forints)	2034	1291	907,1	604,1*	750
12. Index of average gross earnings	108,1	108,2	107,5	100,3	101,0
13. Consumer price index (previous year=100)	103,9	108,0	106,1	103,1*	104,5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	106,5	107,4	103,5	103,4*	106,8
15. Rate of unemployment (at the end of the period, per cent)	7,5	7,7	8,0	9,9**	10

* January-April 2009
** February-April 2009 2009
Sources of actual data: HCSO, NBH, MoF