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Adapting to recession

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank, Hungary's GDP is likely to drop by about 6.5 per cent this year, but the external balance is set to improve markedly, and internal disequilibria are likely to be in line with international requirements. Recession is expected to bottom out in the third quarter; however, fast recovery is not likely in the economies of the world.

The general government deficit will be almost HUF350 billion higher than originally planned. Based on EU (ESA) methodology, this deficit amounts to approximately 3.8 per cent of GDP. The external financing requirement declines to EUR2 billion, corresponding to 2.2 per cent of GDP, which is financed by the IMF-EU stand-by loan. (There was an unprecedented surplus of external financing in the first quarter.)

Employment and wages are gradually adjusting to recessionary times. There are no official statistics on the reduction of employment, however, much more than 100 thousand employees must have been laid off: initially mainly in export-oriented manufacturing industries, later in large and medium-sized service firms as well. A certain part of them were foreign citizens, most of whom returned home, others found jobs elsewhere or retired. In March-May 2009 the number of employees was nearly 78 thousand less than one year before. Thus far the rate of unemployment peaked at 9.9 per cent, then decreased to 9.8 per cent due to seasonality (although it averaged 7.7 per cent in 2008); however, in the course of the year unemployment is forecast to grow further. The activity of micro- and small companies became greyer in terms of both employment and wages.

In the first quarter of 2009 gross average earnings were up by 4.8 per cent in the business sector. Wages in the public sector fell in January (because in January 2008 half of the 13th month salaries were paid out); however, in February-March wages stayed flat. Real earnings dropped by 2.7 per cent in the first quarter of 2009. Households reduce consumption that can be postponed or that requires credit, mostly that of durables. Thus, net savings relative to GDP are on the rise. In the first quarter of 2009 the value of borrowings repaid surpassed that of new ones. Consumer credits fell to one-sixth, mortgage loans to one-third of the level recorded before. In the first four months foreclosures totalled 6 thousand because of credit repayment difficulties. Nonetheless, the vast majority of debtors was paying the instalments in due time or agreed on re-scheduling their debts. Since the outbreak of the crisis, households lost assets valued at approximately HUF600 billion, mostly on stocks and investment units. This accounts for 6-7 per cent of the annual income of households.

From mid-2009, the consumer price index will temporarily increase as a result of the raise of VAT and excise tax rates; it will be around 7 per cent by the end of the year. The annual average inflation rate is expected to total 5 per cent. International inflationary trends are likely to increase mostly from mid-2010. The official rate of the National Bank of Hungary has stuck at a high level (9.5 per cent), however, as the NBH stated, the external financing situation did not allow substantial cuts in June. As internal and external disequilibria improves and the investment climate changes, Hungary might once again be a more attractive market for investors. In July the reduction of the reference rate may start (to 8.5 per cent by the end of the year). Simultaneously, government bond yields will also decrease, which may lead to the strengthening of the forint. The exchange rate of the forint to the euro is expected to average HUF270-HUF280 in the second half of 2009 with smaller volatility than in the first six months and with a slightly strengthening trend; the annual average HUF/EUR exchange rate will be around HUF285.

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

	2006.	2007.	2008.	2009. jan-apr.	2009 (forecast)
1. Volume of GDP (previous year=100)	104.1	101.2	100.6	93.6*	93.5
2. Industrial production (constant prices, previous year=100)	110.1	108.1	98.9	76.5	82.0
3. Investment in the national economy (constant prices, previous year=100)	93.8	101.5	97.0	92.3*	92
4. Construction (constant prices previous year=100)	98.4	85.9	94.9	94.3	95.0
5. Retail trade (volume index, previous year=100)	104.4	97.0	98.2	96.6	95.0
6. Exports (current prices in euro, previous year=100)	116.6	115.7	105.6	72.9	86
7. Imports (current prices in euro, previous year=100)	113.9	111.9	105.6	69.7	82.5
8. Trade balance (EUR billion)	-2.4	-0.1	-0.2	1.0	2.8
9. Balance of the current and capital accounts (EUR billion)	-6.2	-5.4	-7.8	0.3	-2.0
10. Average exchange rate of euro (forints)	264.3	251.3	251.2	290.0**	285
11. Deficit of the general government (cash flow basis, without local governments; billion forints)	2034	1291	907.1	568.7***	1100
12. Index of average gross earnings	108.1	108.2	107.5	100.1	102.4
13. Consumer price index (previous year=100)	103.9	108.0	106.1	103.2***	105.0
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	106.5	107.4	103.5	103.8***	106.8
15. Rate of unemployment (at the end of the period, per cent)	7.5	7.7	8.0	9.8****	10.5

* first quarter 2009
** first half year 2009
*** April-May 2009
**** March-May 2009
Sources of actual data: HCSO, NBH, MoF