

Pessimism eases

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank, the Hungarian economy will probably bottom out this summer. The external balance is set to improve markedly and internal disequilibria are likely to be in line with international requirements.

The values of economic indicators released this summer reveal somewhat less pessimistic economic prospects than earlier; both for Hungary and the world economy. All over the globe, including Hungary, economic sentiment and stock exchange indices are on the rise and the risk appetite of investors is increasing. These signs anticipate the relative improvement of real economic prospects. However, the magnitude and the sustainability of improvement are rather uncertain. It is yet to be seen if demand growth - supported by the increase in inventories and by fiscal measures in many countries (an example is the scrap premium to stimulate car sales) - loses momentum. In addition, the extent of the present small recovery is unclear to which it can generate self-stimulating growth. In the average of 2010 further GDP decrease is expected in the EU.

Although Hungary's GDP contracted by 7.6 per cent, more than the expected in the second quarter of 2009 compared with the same period of the preceding year, in June the decline of industry and exports slowed down, whereas construction recorded slight growth. Retail trade contracted less than earlier, however, this was probably the impact of purchases accomplished before the planned increase of VAT rates in July. The rate of unemployment went down compared with the spring peak, however, this is explained mostly by seasonal factors, such as increased seasonal work in summer. The latest figures show some deterioration. The economic sentiment index of GKI has been slightly improving for the fourth consecutive month, which is a sign of easing pessimism. Beside the global improvement of investment climate, growing confidence in Hungary, too, is reflected in the successful issuance of eurobonds in July and by the relatively strong forint after the reduction of the official rate of the National Bank of Hungary in July and August.

In the first half of the year, the foreign trade surplus amounted to EUR2.1 billion, which is a rather huge value. This is the combined result of the fact that exports declined much less than imports. The general government deficit is expected to correspond to about 3.8 per cent of GDP, the level envisaged by the government and agreed on by the international financial institutions.

As a result of increases in VAT and excise tax rates, the rate of inflation went up to 5.1 per cent in July from 3.7 per cent in June, but thus far the rate of increase was smaller than expected. With the planned reduction of consumer energy prices in autumn, a 6.5 per cent inflation rate is projected by year-end, which is likely to be followed by a marked decline in the second half of 2010.

In the first half year, gross earnings grew by 5 per cent in the business sector and shrank by 7 per cent in the public sphere. (The former figure also reflects the fact that the share of blue-collar workers with lower wages decreased - since mostly these employees were laid off - that raises the average). In the first half of the year, real earnings were 2.2 per cent lower in the whole economy compared with the same period of last year.

Until the end of 2009, further cuts of the official central bank rate are expected. It may decrease from 8 per cent in August to 7 per cent by the end of December 2009. The HUF/EUR exchange rate is forecast to average HUF270 in the second half of 2009 and about HUF280 in 2009. The volatility of the exchange rate will be smaller in the second half of 2009.

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

	2006	2007	2008	January- June 2009	2009 (forecast)
1. Volume of GDP (previous year=100)	104.1	101.2	100.6	92.8	93.5
2. Industrial production(constant prices, previous year=100)	110.1	108.1	98.9	77.5	82
3. Investment in the national economy (constant prices, previous year=100)	93.8	101.5	97.0	94.0	92
4. Construction (constant prices previous year=100)	98.4	85.9	94.9	98.1	93
5. Retail trade (volume index, previous year=100)	104.4	97.0	98.2	96.8	95
6. Exports (current prices in euro, previous year=100)	116.6	115.7	105.6	74.4	86
7. Imports (current prices in euro, previous year=100)	113.9	111.9	105.6	69.5	82
8. Trade balance (EUR billion)	-2.4	-0.1	-0.2	2.1	3.5
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	287.5**	280
11. Deficit of the general government (cash flow basis, without local governments; billion forints)	2034	1291	907.1	815.8**	960
12. Index of average gross earnings	108.1	108.2	107.5	101.3	102.4
13. Consumer price index (previous year=100)	103.9	108.0	106.1	103.6**	104.7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	106.5	107.4	103.5	105.1**	106.5
15. Rate of unemployment (at the end of the period, per cent)	7.5	7.7	8.0	9.7***	10.5

* First quarter 2009

** January-July 2009

*** May-July 2009

Sources of actual data: CSO, NBH, MoF