

No more deterioration

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank, the Hungarian economy hit bottom of recession as of Autumn 2009, and slight growth is expected in the fourth quarter. 2009 will see a 6-7 per cent drop of GDP and stagnation is expected in 2010.

External disequilibria are improving markedly, and internal ones are likely to be in line with international requirements. In 2009 Hungary will not need net external financing (because the loans taken will be used either to lift foreign exchange reserves or to repay loans borrowed earlier). Hungary's net external debt is set to decrease markedly in 2010. The general government deficit relative to GDP compares favourably with European countries already this year and next year it may prove to be one of the lowest ones.

In 2010 the development of the Hungarian economy depends mostly on the evolution of the global crisis, consolidation and recovery trends. Certainly, the economy is and will be influenced by the economic policy of the present government aiming at reducing deficits and enhancing credibility, as well as by the so far unknown economic policy of the new one to be inaugurated after the parliamentary elections. Since money markets signalled that foreign investors expect declining public foreign debt ratios and thus they are willing to finance limited deficits, there will not be much room of manoeuvring for another sustainable economic policy as far as the main macroeconomic trends are concerned, whereas the new government will have endless opportunities to change the details.

Similarly to the EU, the Hungarian economy will also stagnate in 2010. Compared with the corresponding period of 2009, some slight growth is expected from the second half of 2010 on. After the peak in 2008 and the decline that followed in 2009, the growth index for agriculture is expected to stay at around 100 - provided that weather conditions are average. Construction will be the fastest expanding sector - with about 6 per cent output growth - as a result of infrastructure projects co-financed by the EU. Industry is projected to grow by 2-3 per cent because export markets recover slowly and domestic demand increases modestly. Services also stay flat, with the exception of financial services and real estates, which still foresee some decline.

Household consumption will not change much. Gross earnings are expected to increase by 1 per cent only - taking also into account the cut in personal income taxes. However, because of changes in personal income taxes, net earnings will grow by 7-7.5 per cent resulting in an approximately 3 per cent increase of real earnings. Real incomes will stay flat more or less, because unemployment benefits decline as time passes by, family subsidies do not increase in nominal terms - a portion of it is to be reported on the tax reclaim sheets as non-taxable income - and although the real value of monthly pensions increase, on an annual basis it contracts since the 13th month pension was abolished. Households will have easier access to credit, but their behaviour will be more cautious. Net savings relative to GDP will stay at around 5 per cent. The rate of unemployment will be equal to the figure of this year: 9.8 per cent. The bottom of employment is expected in the first quarter of 2010.

Because of the uncertainties related to the parliamentary elections, in the first half of 2010 the HUF/EUR exchange rate will stay close to HUF270 (the level predicted in the second half of 2009), then - if the economic policy mix is supported by financial markets and international institutions - it will strengthen to HUF260 in the second half of the year. The National Bank of Hungary may also continue cutting its reference rate.

Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2009-2010

	2008	2009 Jan- Aug	2009	2010
			(forecast)	
1. Volume of GDP (previous year=100)	100.6	92.8*	93.5	100
2. Industrial production (constant prices, previous year=100)	98.9	78.2	84	103.5
3. Investment in the national economy (constant prices, previous year=100)	97.0	94.0*	95	106
4. Construction (constant prices previous year=100)	94.9	96.9	95	106
5. Retail trade (volume index, previous year=100)	98.2	96.3**	96	100
6. Exports (current prices in euro, previous year=100)	105.6	76.0	86.5	104
7. Imports (current prices in euro, previous year=100)	105.6	69.9	80	106.5
8. Trade balance (EUR billion)	-0.2	2.8	4.5	3.0
9. Balance of the current and capital account (EUR billion)	-6.5	0.6*	0	-0.5
10. Average exchange rate of euro (forints)	251.2	283.8***	280	265
11. Deficit of the general government (cash flow basis, without local governments; billion forints)	909	1059***	1000	870
12. Index of average gross earnings	107.5	101.3**	102	101
13. Consumer price index (previous year=100)	106.1	103.9***	104.2	103.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.5	104.9***	105.3	103
15. Rate of unemployment (at the end of the period, per cent)	8.0	9.9****	10.5	9.8

* first half of 2009

** January-July 2009

*** January-September 2009

**** June-August 2009

Sources of actual data: HCSO, NBH, MoF