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External debt declines

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank, the Hungarian economy will be close to stagnation in 2010. In the current account surplus is expected, the general government deficit is likely to amount to 4-5 per cent of GDP - depending also on the economic policy of the next government.

In the Hungarian economy, the output of industry went up already in the third quarter of 2009, exports in the second quarter compared with the previous one, whereby GDP was likely to set to grow in the fourth quarter. This year construction can be the most dynamic industry due mostly to infrastructure development projects co-financed by the EU, whereas business investments are projected to increase only in the second half of 2010.

Household consumption will probably contract further, by about 1 per cent. As a consequence of excess labour force supply, gross earnings will only slightly increase, by 1 per cent, taking also into account the reduction of personal income tax rates. Although the minimum wage goes up by almost 3 per cent, many companies cannot raise wages. However, as a result of changes in the personal income tax rules, net earnings will mount by 7.5 per cent, which implies a 3.5-4 per cent growth of real earnings. (In 2009-2010, real earnings increased by about 1 per cent taken together; in the business sector they went up by at least 5 per cent and in the public sphere the decline was almost 10 per cent.) Real incomes stay more or less flat as employment further declines, unemployment benefits decrease over time, cafeteria benefits drop because of the new tax rules, and family subsidies do not grow in nominal terms. The real value of monthly pensions increases slightly, however, with the inclusion of the impact of pension correction a small drop is likely because the 13th month pension was fully abolished.

In 2009 the annual average consumer price index was 4.2 per cent (5.6 per cent at the end of the year). In the first half of 2010 the rate of consumer price inflation will total 4-5 per cent, and will decline to 3 per cent only from the middle of the year. Therefore, the annual average rate of inflation is expected to equal to 3.5 per cent. In 2011 the rate of inflation may drop below 3 per cent, which is the target of the National Bank of Hungary.

The crisis caused changes in the behaviour of economic actors and, as a result, the foreign trade and the current account deficit decreased markedly already in 2009. Since domestic demand slightly increase, the surplus in the foreign trade balance will decline this year and a surplus is forecast in the current account because the deficit of incomes will not increase considerably (as profits decline). At the same time the utilisation of EU transfers will accelerate. Thus, the surplus of the current and capital accounts will be around EUR2.8 billion both in 2009 and 2010 (following the EUR6.6 billion deficit in 2008). The improvement is approximately EUR10 billion so Hungary's external indebtedness will go down considerably.

The Monetary Council will probably pursue a cautious interest rate policy prior to the elections. If trends in general government remain within the frame accepted by the international financial institutions, the interest rate cuts can continue in the second half of 2010 from the current 6 per cent level.

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

	2008	Jan-Nov 2009	2009 (est.)	2010 (forecast)
1. Volume of GDP (previous year=100)	100.6	92.9*	93.5	100
2. Industrial production (constant prices, previous year=100)	98.9	80.9	84	103,5
3. Investment in the national economy (constant prices, previous year=100)	97.0	92.9	94	105
4. Construction (constant prices, previous year=100)	94.9	96.0	96.5	106
5. Retail trade (volume index, previous year=100)	98.2	95.0	95	100
6. Exports (current prices in euro, previous year=100)	105.6	79.6	82	104
7. Imports (current prices in euro, previous year=100)	105.6	73.2	75	106
8. Trade balance (EUR billion)	-0.2	4.2	4.8	3,7
9. Balance of the current and capital account (EUR billion)	-6.6	1.7*	2.8	2,8
10. Average exchange rate of euro (forints)	251.2	280.6**		265
11. Deficit of the general government (cash flow basis, without local governments; billion forints)	909	918.6**		870
12. Index of average gross earnings	107.5	100.5	100.5	101
13. Consumer price index (previous year=100)	106.1	104.2**		103.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.5	105.6**		103
15. Rate of unemployment (at the end of the period, per cent)	8.0	10.5***		10.5

* January-September 2009

** Annual data (fact)

*** Fourth quarter 2009 (fact)

Sources of actual data: HCSO, NBH, MoF