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Recession might end after seven quarters

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank, recession in the Hungarian economy comes to an end in 2010. There will be a current account surplus again and the deficit of the general government approved of by the parliament can also be attained if there are corresponding government intentions.

International confidence in the Hungarian economy will considerably improve from the middle of 2010. In spite of the fact that the official rate of the central bank was reduced to 5.75 per cent from 9.5 per cent, the exchange rate of the forint to the euro has been fluctuating around HUF270 with moderate volatility. There is no need to draw the full amount of the IMF stand-by-loan, since the issuance of Hungarian government bonds denominated in euro and dollar was successful and the Greek crisis did not influence negatively the assessment of the Hungarian economy. Moreover, the corrections made by Hungarian economic policy makers are often referred to as the way to go for countries, which face large general government deficits now. Nevertheless, there has been recession for seven consecutive quarters. Compared to the European Union, the Hungarian recession will come to an end with a two-quarter delay, only in the first quarter of 2010. In annual terms, however, 2010 will still be a year of stagnation. Consumption will decline further (by about 1 per cent) and investments will rise only moderately, by about 3 per cent (attributed to mostly infrastructure projects co-financed by the EU).

Although GDP in the EU grew already in the third quarter of 2009 compared with the second one, the only 0.1 per cent growth in the fourth quarter signals how fragile this recovery was. It also indicates that thus far European GDP growth has been the result of the replenishment of inventories and fiscal stimuli (e.g. the cash-for-clunkers schemes); so it is uncertain whether self-stimulating and self-sustaining economic trends started as a result. Despite these doubts, the improvement of the European business cycle is a fact, and - correspondingly - Hungarian exports increased by 9 per cent in December 2009 month on month although the level of December 2008 was rather low.

In the first quarter of 2010 the output of industry and construction is expected to exceed slightly the level of the same period of the previous year. However, unemployment will increase: many firms that used up its reserves are under pressure to lay off further employees and even to cease to operate. At the end of 2009 the number of employees was 98 thousand lower than that in 2008 and 126 thousand lower than in 2007. Unemployment is expected to improve slightly in the second quarter in 2010 - first, because of seasonal employment - however, in annual terms the deterioration still continues. It is somewhat encouraging that in industry and trade the number of firms planning layoffs is only slightly exceeds those intending to hire new employees.

The incumbent and the incoming governments have to pursue tight fiscal and income policies in 2010, which leaves some room for loosening in monetary policy. The budgetary law of 2010 envisages a 3.8 per cent general government deficit relative top GDP. If the government intends and if fiscal policy stays disciplined - perhaps with some correction - the deficit target can be attained; this is what international institutions also stated. These institutions would allow for a 5 per cent deficit in 2010 only if it was the result of one-off consolidation expenditures and there were also guarantees that these expenditures would not start accumulating again.

In 2009 the external disequilibria of the Hungarian economy improved markedly, which was the consequence of declining imports (because of the decreasing domestic consumption and investments) and slightly accelerating EU transfers. Following the EUR6.6 billion deficit in 2008, the current and capital account will show a surplus of about EUR2.8 billion in both 2009 and 2010. The stock of external debt will decrease considerably.

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

	2008	2009	2010. (forecast)
1. Volume of GDP (previous year=100)	100.6	93.7	100
2. Industrial production (constant prices, previous year=100)	98.9	82.3	103.5
3. Investment in the national economy (constant prices, previous year=100)	97.0	91.4	103
4. Construction (constant prices, previous year=100)	94.9	95.7	103
5. Retail trade (volume index, previous year=100)	98.2	94.8	99
6. Exports (current prices in euro, previous year=100)	105.6	81.3	104
7. Imports (current prices in euro, previous year=100)	105.6	74.8	106
8. Trade balance (EUR billion)	-0.2	4.6	3.7
9. Balance of the current and capital account (EUR billion)	-6.6	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	880
12. Index of average gross earnings	107.5	100.5	101
13. Consumer price index (previous year=100)	106.1	104.2	104.3
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.5	105.6	103.3
15. Rate of unemployment (at the end of the period, per cent)	8.0	10.5	10.5

* GKI forecast

Sources of actual data: HCSO, NBH, MoF