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Exports and industry started to grow

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank economic growth in 2010 will be determined by the recovery of external demand, investments co-financed by the EU, the gradual easing of pessimism and stabilising financial situation of the Hungarian economic actors, and the related partial replenishment of inventories. In 2010 these trends lead to stagnation only.

Compared with the low figures of 2009, industry and foreign trade data that are related to the external business cycle have already indicated strong signs of growth at the beginning of 2010. Nonetheless, in many segments of the economy - construction, retail trade, labour market - deterioration continues. In January-February industrial exports grew by 15 per cent, however, domestic sales of industry went down by 11 per cent. The manufacture of computers increased by 16 per cent, that of motor vehicles by 25 per cent. The output of construction was almost 12 per cent lower than in the same period of 2009. The contraction of retail trade continued in February 2010, but the decline slowed to 4 per cent from 6 per cent in January. However, guest nights - spent especially by foreigners - at commercial lodgings increased somewhat.

Related to the change of government, government decision making is likely to slow down considerably. The demand for investments create a market for civil engineering, however, Hungarian producers will have limited opportunities as machinery investments increase only slightly and consumption declines somewhat while import competition is intensifying. Export-oriented manufacturing and service sectors - such as industry, road transportation, and tourism - will expand most. Domestic sales of businesses will increase only by the end of the year. The annual growth of gross industrial output will total around 3-4 per cent, that of construction around 3 per cent. In agriculture, at least the same level of crop production is expected as last year. Retail trade will shrink further, only the Christmas season will see some growth compared with 2009. The revenue of telecommunication firms is expected to decrease slightly, because of the drop of voice communication revenues. Undertakings in general, small ones in particular will still suffer from the lack of domestic demand and the shortage of financing sources. The micro, small and medium-sized enterprises tend to turn to the grey economy.

Investments co-financed by the EU will surge, business investments will slightly increase, and the number of homes completed will fall to 20 thousand from 32 thousand in 2009. Only a 3 per cent expansion of investments is expected. Household consumption will further decline by 1.5 per cent. Due to the oversupply of labour force and the lowering of personal income tax rates gross earnings are projected to mount by about 2 per cent. Due to changes in taxation net earnings are likely to jump by 7.5 per cent resulting in a 3 per cent growth of real earnings. Nevertheless, real income will only stagnate. The slow rate of increase of credits implies that the net savings ratio grows to 4 per cent. The number of employed persons drops by 1 per cent, unemployment will grow to a peak of 12 per cent in spring, then a seasonal decline is forecast. Some moderate productivity growth is also likely to restart.

The general government deficit could be close to 3.8 per cent of GDP corresponding to the level accepted by the parliament; however, the new government is likely to set the deficit target at around 5 per cent, partly because it intends to start the consolidation of some state-owned companies.

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

	2008	2009	February 2010	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	105.9	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	88.3	103
5. Retail trade (volume index, previous year=100)	98.2	94.8	94.8	98
6. Exports (current prices in euro, previous year=100)	105.6	81.1	116.4	105
7. Imports (current prices in euro, previous year=100)	105.6	75.3	109.9	107
8. Trade balance (EUR billion)	-0.2	4.0	0.7	3
9. Balance of the current and capital account (EUR billion)	-6.5	1.4	-	1.5
10. Average exchange rate of euro (forints)	251.2	280.6	268.7*	265
11. Deficit of the general government (cash flow basis, without local governments; billion forints)	909	918.6	609.9*	1200
12. Index of average gross earnings	107.5	100.5	103.7	102
13. Consumer price index (previous year=100)	106.1	104.2	106.0*	104.3
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.5	105.6	105.9*	103.3
15. Rate of unemployment (at the end of the period, per cent)	8.0	10.5	11.9*	11.0

* January-March 2010

Sources of actual data: HCSO, NBH, MoF