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Waiting for the tax and budgetary laws

According to the forecast of GKI Economic Research Co. prepared in co-operation with Erste Bank, the conditions for growth in 2011 are worse than previous expectations. Compared to 2010, growth of external demand slows down, whereas domestic demand picks up only slowly. Following a 1 per cent growth in 2010, Hungary's GDP will expand by about 2.5 per cent in 2011 driven by exports and investments. The general government deficit will drop to about 3 per cent of GDP.

Next year more EU funds will be available; however, government decisions are set to slow down. Hungarian economic actors are much more optimistic than earlier and the financial position of those surviving the crisis is becoming more stable, however, the unavoidable fiscal rigour constrains government policy measures, whereas the exaggerated additional levy imposed on financial institutions and the deteriorating credit stock impedes the financing activity of banks. Household consumption almost stagnates - it is also true that after four quarters of decline moderate growth is also welcome - investments in the business sector are limited to a few export-oriented companies.

Export-driven manufacturing industry will be the engine of growth in 2011 as well. Following many years of decline, output in construction is expected to increase by about 4 per cent. Following a 3 per cent drop this year, retail trade will grow only by about 1 per cent in 2011; however, more expensive durables (financed on credit) will stagnate. In transportation and tourism external demand will remain more dynamic, but in 2011 domestic demand will not decline either.

The investment generating impact of EU funds, whose inflow slowed down in 2010, may accelerate in 2011 as a result of the New Széchenyi Plan. The Széchenyi credit card can channel further resources to business investments. Fresh public funds are available for companies (loans, guarantees) to assist the implementation of corporate investments from EU funds. In 2011 foreign direct investments will be above the level of this year (due mainly to the Mercedes project, but Audi and GM Opel can also be mentioned), so investments in manufacturing may grow by 10 per cent. A 4 per cent overall growth of investments is expected (after a 3 per cent decline this year).

Earnings in 2011 depend strongly on the content and the timing of the "single rate family-based taxation" announced by the government. Real earnings will climb by about 3 per cent (against 4 per cent this year). Pensions will only be adjusted for by the rate of inflation. Family subsidies are likely to keep only their real value as well, employment will not expand, so real incomes will increase again more slowly than real wages, approximately by 1.5 per cent. As the average monthly credit repayments will grow compared to 2010, purchased consumption will increase only by 1 per cent and total household consumption by 0.5 per cent. Nonetheless, the enforced willingness of households to save is set to increase, which - besides growing difficulties to access to credits - is explained by the growth of savings for an uncertain future. The gross savings ratio increases to 5 per cent of GDP; the net one stays at about 5 per cent. The average unemployment rate drops to 11 per cent in 2011 from 11.5 per cent in 2010.

This year the surplus of both foreign trade and the current account will be higher than last year and than previous expectations. In 2011 the foreign trade surplus moderates as a result of increasing domestic demand, however, as a result of rising net EU-transfers the balance of the current and capital account improves further. Hungary's total net foreign debt may decrease to EUR46 billion in 2011 from EUR52 billion at the end of 2009.

Provided that international markets welcome the 2011 budget to be passed by Parliament at the end of 2010 as well as the revised convergence programme that demonstrates the long-term commitment of the government to equilibrium, confidence in the Hungarian economy and the forint is likely to set to return slowly. The annual average exchange rate of the forint to the euro will be around HUF270 (similarly to the rate recorded in the first half of 2010).

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

	2008	2009	July 2010	2010 (forecast)	2011 (forecast)
1. Volume of GDP (previous year=100)	100.6	93.7	100.5*	101	102.5
2. Industrial production (constant prices. previous year=100)	98.9	82.3	110.0***	108.5	107
3. Investment in the national economy (constant prices. previous year=100)	97.0	91.4	94.5*	97	104
4. Construction (constant prices. previous year=100)	94.9	95.7	87.7	92	104
5. Retail trade (volume index. previous year=100)	98.2	94.8	96.2	98	101
6. Exports (current prices in euro. previous year=100)	105.6	81.1	122.1***	116	112
7. Imports (current prices in euro. previous year=100)	105.6	75.3	119.4***	115	113
8. Trade balance (EUR billion)	-0.2	4.0	3.5***	5..3	5
9. Balance of the current and capital account (EUR billion)	-6.5	1.4	1.7*	2.9	3
10. Average exchange rate of euro (forints)	251.2	280.6	275.1**	277	270
11. Deficit of the general government (cash flow basis. without local governments; billion forints)	909	918.6	1089.1****	890	790
12. Index of average gross earnings	107.5	100.5	102.6	102.5	103.5
13. Consumer price index (previous year=100)	106.1	104.2	105.2***	104.8	103.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.5	105.6	103.7***	104.0	103.2
15. Rate of unemployment (at the end of the period. per cent)	8.0	10.5	11.0*****	11.3	11

* First half of 2010
** Q1-Q3 2010
*** January-August 2010
**** January-September 2010
***** June-August 2010
Sources of actual data: HCSO, NBH, MoF