



## Slow improvement

**As a result of the latest Greek rescue package, the negative effects of the European debt crisis have eased; however, Europe, including Hungary, is still in danger. The Hungarian export growth rate is expected to decline slightly in the second half of the year. The decrease of domestic demand has stopped: both consumption and investments are expected to grow modestly. GDP is expected to increase by around 2.5 per cent in 2011.**

In the first quarter of 2011 the Hungarian economy grew by 2.5 per cent. This rate probably did not pick up in the second quarter, and it is not expected to be higher in the rest of 2011. Owing to the decline in European demand, Hungarian exports will grow less rapidly than before. However, in the second half of the year the modest growth in investments and consumption may compensate for the slight slowdown in exports. GKI projects a GDP growth rate of 2.5 per cent in 2011.

Due to relatively favourable weather conditions, agricultural production, will increase significantly. Although the growth in industrial production slowed down slightly in April and May, its rate of growth remains dynamic in 2011 (albeit not reaching 10 per cent). In construction recession is continuing due to the lack of demand. Retail sales stagnated in the first half of 2011. Demand for domestic business services also stagnated, and it is not expected to pick up in the second half of the year.

Household consumption will increase by about 1 per cent in 2011. The crisis introduced profound changes in the consumption and savings behaviour of households. The increase of risks, the decrease of borrowing possibilities and the almost permanent growth of the monthly amortisation instalment of existing loans intensified caution. This has made consumers more sensitive to price, at the same time limiting consumption and bolstering savings. In August real income on private pension fund savings will be paid out, in a total amount of about HUF190bn. If this sum of money is spent entirely in Hungary, consumption could increase by an additional 1 per cent. It is likely, however, that the majority of this amount will be saved or used for loan repayments. Those with higher incomes will spend it abroad on holiday services. As a result, its effect on domestic consumption and production will be relatively modest. Investments will grow by about 1 per cent in 2011. The only dynamic sector will be the automotive industry. Central and local government investments rely almost exclusively on EU transfers. The utilisation of allocated funds did not pick up, and tendering activities of companies are still quite weak. Housing construction will decline further, by around 30 per cent in 2011, due to the lack of demand and the shrinking credit sources available to real estate developers. The export surplus will be slightly bigger than last year.

Gross earnings will increase by 4 per cent, resulting in an average rate of increase of 2.5 per cent in real earnings. Income inequality will definitely grow in 2011, owing to mainly the way of personal income tax reduction. The unemployment rate will decline slightly in the second half of the year.

Consumer prices were 0.2 per cent lower in June than a month earlier. Thus inflation has been tamed, thanks to primarily the weakening upward pressure on food prices. The exchange rate of the forint against the euro did not change much; however it weakened considerably vis-à-vis the Swiss franc. The official rate of the central bank is likely to remain unchanged this year. An increase of this rate would not be justified by inflation, whereas its reduction is still impossible due to concerns about the European debt crisis.

## The forecast of GKI Economic Research Co.: the Hungarian economy in 2011

	2008	2009	2010	Jan-May 2011	2011 (forecast)
1. Volume of GDP (previous year=100)	100.8	93.3	101.2	102.5*	102.5
2. Industrial production (constant prices, previous year=100)	98.9	82.3	110.5	110.3	109
3. Investments in the national economy (constant prices, previous year=100)	100.4	93.5	94.4	98.9*	101
4. Construction (constant prices, previous year=100)	94.9	95.7	89.9	91.7	95
5. Retail trade (volume index, previous year=100)	98.2	94.8	97.7	99.8	101
6. Exports (current prices in euro, previous year=100)	106.3	80.6	121.4	120.4	118
7. Imports (current prices in euro, previous year=100)	106.6	75.2	119.4	118.5	118
8. Trade balance (EUR billion)	-0.6	3.4	5.5	3.3	6
9. Balance of the current and capital account (EUR billion)	-6.8	1.4	3.8	1.3*	3.7
10. Average exchange rate of euro (in HUF)	251.2	280.6	275.4	269.4**	268
11. Deficit of the general government (cash flow basis, without local governments; HUF billion)**	909	918.6	870	1034.6**	1190***
12. Index of average gross earnings	107.5	100.5	101.4	103.4	104
13. Consumer price index	106.1	104.2	104.9	104.1**	104.2
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.5	105.6	104.7	103.5**	104
15. Rate of unemployment (at the end of the period, per cent)	8.0	10.5	10.8	10.8****	10.7

\* First quarter of 2011

\*\* January-June 2011

\*\*\* Including the HUF528bn pension fund takeover and the acquisition of MOL shares

\*\*\*\* March-May 2011

Sources of actual data: CSO, NBH, NGM