THE PRICE OF THE BUDGETARY SUCCESS

According to the forecast of GKI Economic Research Co., the excessive deficit procedure will be terminated for Hungary in June. This is good news. However, the ten new taxes introduced for achieving this purpose in recent years pose an obstacle to economic development. Inflation and the base rate will drop. The financing conditions of the budget will improve; however, this is largely a consequence of the huge international glut of money. The political and investors' distrust of the Hungarian economy continues to intensify. GDP is expected to stagnate in 2013.

In the first quarter of 2013 GDP was 0.9 per cent lower than a year ago. Industrial production was 3.1 per cent lower than in the last year, retail sales were 1.7 per cent lower, whereas foreign trade stagnated. Only the construction sector increased, compared with an extremely low base. Employment at companies employing more than five persons and in the public sector declined by about 1 per cent. However, CSO surveys show that the proportion of those doing some kind of work increased by 1 per cent. The difference might be explained by the expansion of foreign and grey employment. The rate of wage increases slowed down considerably compared to last year, and it will be well below the 5.4 per cent increase of the minimum wage due to the dramatically decreasing inflation rate (and the economic downturn). As a result, gross earnings are expected to rise by 3 per cent in 2013, whereas net earnings will increase slightly at a higher rate than this. Providing that inflation will be around 2.2 per cent, real earnings can be expected to grow by at least 1 per cent. The real value of pensions will go up by almost 3 per cent as pensions will be raised by 5.2 per cent in accordance with the government's original forecast of inflation. Despite the 1.5 per cent increase of real incomes, indebted households with uncertain future would hardly lift their consumption.

In the first quarter of 2013 investments continued to decline by nearly 4 per cent over the previous quarter and they were by more than 8 per cent less than in the previous year. A 2 per cent recession can be expected in 2013. The investment rate, which was around 20-25 per cent of GDP in the first decade of the new millennium will drop below 17 per cent in 2013. (The EU average was 19.6 per cent in 2012.) This is an extremely low rate, hardly covering the renewal of capital stocks. Owing to the stagnation of the EU, Hungarian exports can be expected to increase substantially only in the second half of the year. Following the interest rate cuts of the central bank and the announcement of low-interest loans, the best companies get access to loans cheaply. However, this will hardly cause an acceleration of economic growth due to low demand and the unpredictable behaviour of the government.

The abrogation of the excessive deficit procedure against Hungary will not provide an opportunity for election-related fiscal loosening as in this case the procedure may be restarted even before the elections. Therefore, this year's deficit relative to GDP will be probably below, or not much over 3 per cent, although it will be higher than 2.7 per cent projected by the EU. GKI expects that the burdens of popular measures like reducing overheads will largely be passed on directly, or indirectly in the form of tax increases, to the business sector. Although this may keep the deficit in 2014 at a level that can be tolerated by the EU, it would further deteriorate the possibility of an even modest economic growth. In addition, it cannot be ruled out that, irrespective of its budgetary consequences, the government would start an election-related expenditure spree in case of a fierce election situation.

THE FORECAST OF GKI FOR 2013

	Description	2011	2012	2013. I-III. hó	2013 forecast
1.	GDP (%)	101,6	98,3	99,1	100
2.	Industrial production (%)	105,4	98,3	96,9	101
3.	Investments (%)	95,5	94,8	91,3	98
4.	Construction services (%)	92,2	94,1	104,8	100
5.	Retail trade turnover (%)	100,2	98,1	98,3	100
6.	Exports (current prices in euro, %)	112	100,2	99,9	103
7.	Imports (current prices in euro, %)	110,6	100,4	99,8	102,5
8.	Foreign trade balance (EUR billion)	7,1	6,9	1,7	7,5
9.	Current and capital account balance (EUR billion)	3,6	4,2	-	4,5
10.	Average exchange rate of euro (in HUF)	279,2	289,4	297,0**	295
11.	General government deficit (HUF billion)*	1734,4	607,5	528,6**	850
12.	Index of average gross earnings	105,2	104,6	102,9	103
13.	Consumer price index	103,9	105,7	102,9**	102,2
14.	Consumer price index at the end of the period (corresponding month of the previous year=100)	104,1	105,0	102,2	102,3
15.	Rate of unemployment (at the end of the period, %)	10,7	10,7	11,0***	10,7

** Cash flow basis, without local governments*
*** January-April 2013*
**** February-April 2013*
Sources of actual data: CSO, NBH, NGM

GKI ECONOMIC RESEARCH CO.

1092 Budapest, Ráday u. 42-44.
Phone: +36 1 318 1284
E-mail: gki@gki.hu
For more information: Andras Vertes, Laszlo Akar, Gabor Karsai