



WAITING FOR GROWTH

Following last year's decline, stagnation or GDP growth up to 0.5 per cent can be expected in 2013. This is primarily due to the fact that this year the weather has been much more favourable and therefore agricultural GDP will grow at least by 20 per cent. Investments continue to fall and consumption will stagnate. Owing to the low rate of GDP growth, any increase in employment can only be possible as a result of the extension of the public works programme of the government.

In Hungary recession has come to an end in statistical terms; however, no genuine turn can be experienced in economic growth yet. The effects of the expected good agricultural harvest can only be perceived later. Retail trade turnover and construction output increased, whereas the performance of industry decreased. Exports definitely picked up; however, investments continued to fall. In the first five months employment by companies with more than five persons and in the public sector declined slightly. However, CSO surveys show that the proportion of those doing some kind of work increased by 1.4 per cent. Thus, although there are both positive and negative signs, no clear direction of development has yet emerged.

GKI expects 2.2 per cent inflation in 2013. Various conflicting factors and market and government decisions have tremendous impacts on inflation. Government measures to reduce the price of energy and utility service fees pull down inflation significantly. However, new taxes will be gradually reflected in prices. Taxes like the telephone tax, utility tax, e-tolling and transaction tax will all increase the rate of inflation. The sales margin of tobacco products raised on July 1 will also contribute to inflation. Food and fuel prices are growing considerably for market reasons. However, market services and consumer durables slow down inflation. The planned additional 10 per cent reduction in electricity and gas prices will reduce the annual rate of inflation by roughly 0.8 percentage points. However, this reduction will affect only 2-3 months in 2013 as they will come into effect only in September and October. The decline in the inflation rate this year will clearly have negative effects on the general government balance.

The central bank reference rate is 4.0 per cent from July 24. According to central bank executives base rate cuts will continue, though the extent of the cuts will be smaller (probably 10 basis points). Possible interest rate changes are mainly determined by external factors. Low interest rates beyond a certain point will no longer be enough to attract the strongest foreign and domestic government bond buying groups of the past period. If the forint weakens considerably and the euro exchange rate reaches HUF310-HUF320, the interest rate cutting cycle will stop (in extreme cases, the rate can even be increased).

The general government deficit is expected to be some 3 per cent of GDP (somewhere between 2.7 and 3.4 per cent), that is, slightly above the official deficit target of 2.7 per cent. The government debt to GDP ratio will be around 79-80 per cent at the end of 2013. The nature of its annual change will depend on the year-end exchange rate of the forint to the euro and the size of fiscal reserves.

THE FORECAST OF GKI FOR 2013

Description		2011	2012	2013. I-V.	2013
					forecast
1.	GDP (%)	101.6	98.3	99.1*	100.3
2.	Industrial production (%)	105.4	98.3	98.7	101
3.	Investments (%)	95.5	94.8	91.3*	98
4.	Construction services (%)	92.2	94.1	107.5	102
5.	Retail trade turnover (%)	100.2	98.1	99.7	100
6.	Exports (current prices in euro, %)	112	100.2	103.1	103
7.	Imports (current prices in euro, %)	110.6	100.4	102.7	102.5
8.	Foreign trade balance (EUR billion)	7.1	6.9	2.5	7.5
9.	Current and capital account balance (EUR billion)	3.6	4.2	-	5.0
10.	Average exchange rate of euro (in HUF)	279.2	289.4	296.1***	295
11.	General government deficit (HUF billion)*	1734.4	607.5	721.7***	1000
12.	Index of average gross earnings	105.2	104.6	102.9*	103
13.	Consumer price index	103.9	105.7	102.3***	102.2
14.	Consumer price index at the end of the period (corresponding month of the previous year=100)	104.1	105.0	101.9***	102.3
15.	Rate of unemployment (at the end of the period, %)	10.7	10.7	10.3****	10.7

* First quarter of 2013

** Cash flow basis, without local governments

*** Jan-Jun 2013

**** Apr-Jun 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