



HUNGARIAN ECONOMY HAS STILL BEEN FROZEN EVEN AFTER A HOT SUMMER

GKI Economic Research Co. forecasts that GDP is expected to grow by around 0.5 per cent in the second half of 2013, following its decline last year and in the first half of 2013. As a result, GDP is expected to increase by about 0.3 per cent in 2013. This is primarily due to the significant rise in the production of crops thanks to the fact that this year the weather has been much more favourable. Other sectors, as well as consumption and investments will largely stagnate. Government measures, such as the forced reduction of overheads and the expected elimination of FX loans, are primarily aimed at improving the general mood of the population. These measures impair the chances of economic growth instead of improving them.

In Hungary the decline of GDP in the first quarter was followed by a 0.2 per cent increase in the second quarter. This is favourable compared with the EU average (where there was a 0.2 per cent decline in the second quarter as well). However, it is much less than the around 1 per cent growth in Poland, Romania, Slovakia and the Baltic states. In addition to an increase in the output of agriculture, only that of construction rose in the first half of 2013. However, in the second half of 2013, as a result of economic recovery in Europe, a modest improvement can be expected in industry, which was still declining in the first half of the year. (In the first half of 2013 domestic sales of industry fell by 4 per cent, whereas exports grew by 1.4 per cent.) In the first half of 2013 Hungary's total exports of goods rose barely (in fact, they fell in June) and, apart from the Czech Republic and Croatia, they lagged behind the average of the CEE region. Investments already increased in the second quarter; however, they declined in the manufacturing sector. The recovery of retail sales in the spring has so far proved to be temporary, though last year's level can probably be reached due to the nearly 1.5 per cent increase of real earnings. Propensity (or compulsion) to save by households remained high, whereas their credit portfolios are decreasing.

Employment at companies employing more than five persons and in the public sector declined by about 0.2 per cent in the first half of the year. This deterioration is the result of the declining employment generation capacity of the business sector as the number of people in public workfare increased, whereas the number of those working in the public sector without public workfare stagnated. However, CSO surveys show that the proportion of those doing some kind of work increased by 1.5 per cent. Unemployment decreased due to the increased number of summer job opportunities, the extension of workfare programmes and the expansion of foreign and grey employment.

GKI expects 2.2 per cent inflation in 2013. The rate of inflation is reduced by overhead reductions, whereas it is raised by new taxes like the telephone tax, utility tax, e-tolling and transaction tax, as well as by the increased sales margin on tobacco. Inflation in Hungary reached the EU average by the forced downward pressure on domestic inflation; however, this is unsustainable and has a lot of harmful side effects.

The aim of the Monetary Council is to reduce the base rate, though in smaller steps in order to maintain a continuous process. If the HUF weakens considerably and the euro exchange rate reaches HUF310-HUF320, the interest rate cutting cycle will stop (in a long-term unfavourable international financial market situation, the rate can even be pushed up). The general government deficit in 2013 will be higher than the 2.7 per cent target but will remain around 3 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 timing of new issuance of FX bonds, the size of fiscal reserves and the year-end exchange rate of the HUF to the euro.

THE FORECAST OF GKI FOR 2013

Description		2011	2012	Jan-Jun 2013	2013
					forecast
1.	GDP (%)	101.6	98.3	99.8	100.3
2.	Industrial production (%)	105.4	98.3	98.4	101
3.	Investments (%)	95.5	94.8	98.8	100
4.	Construction services (%)	92.2	94.1	107.2	102
5.	Retail trade turnover (%)	100.2	98.1	99.4	100
6.	Exports (current prices in euro, %)	112	100.2	100.9	103
7.	Imports (current prices in euro, %)	110.6	100.4	100.9	102.5
8.	Foreign trade balance (EUR billion)	7.1	6.9	3.7	7.5
9	Current and capital account balance (EUR billion)	3.6	4.2	1.1**	5.0
10	Average exchange rate of euro (in HUF)	279.2	289.4	297.8** *	299
11	General government deficit* (HUF billion)	1734.4	607.5	851.2***	1000
12	Index of average gross earnings	105.2	104.6	103.4	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	101.8***	102.3
15	Rate of unemployment (at the end of the period, %)	10.7	10.7	10.1****	10.7

* Cash flow basis, without local governments

** First quarter of 2013

*** January-July 2013

**** May-July 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