TEMPORARY IMPROVEMENT

GKI Economic Research Co. predicts that in 2014 economic growth will be significantly higher and inflation lower than previously anticipated owing to extensive government involvement. The upswing of the European business cycle has a favourable impact on Hungarian exports. The purchasing power of households, together with the performance of companies selling their goods and services in the domestic market, is somewhat increasing as well due to the economic policy influenced by the elections. As a result of the large-scale absorption of EU transfers, investments are also going up. However, this year' good results, which are favourable compared to other EU countries as well, are largely unsustainable.

In the first quarter of 2014 Hungarian GDP increased at a rate not recorded for seven years, by 3.5 per cent, though compared to a very low statistical base. In the EU only the Polish and Romanian growth rates exceeded those of Hungary. In 2014 most sectors were able to increase their output. Industrial production grew by 8.4 per cent. One of its subsectors, manufacturing jumped by 10 per cent. This increase was attributable primarily to the sales growth of the automotive industry and its suppliers. For the first time after a long period, not only exports increased but domestic sales as well. After two years of decline, production of the electronics industry also went up in March, even if only moderately. Construction output rose by more than 20 per cent (it should be noted that the weather was very favourable). Retail sales increased by 6.4 per cent (they grew by 4 per cent if the changes in recording tobacco sales statistics were left out of consideration). The uncertainty of the data is indicated by the fact that VAT revenues in the first quarter were up by only 1.4 per cent (in the first four months by 3 per cent). In addition, the whitening effects of the new on-line cash registers should have been manifested by now, too. The number of unemployed fell by 2.9 percentage points in a year, to 8.1 per cent. This is largely due to public work schemes and foreign employment. However, employment rose by 2.3 per cent in the first quarter even with the exclusion of people involved in public work schemes.

The spectacular rise in investment (compared to a low base) continued in the first quarter of 2014 (by 22.6 per cent); however, its slowdown is expected later this year.

The average gross earnings grew by 1.8 per cent in the first quarter (by 6.4 per cent with the exclusion of those involved in public work schemes). As net earnings increased by the same amount and inflation practically stopped temporarily, real wages also were up by the same amount in the first quarter of 2014. Wage increases in the competitive sector are likely to fall short of last year's due to a very low rate of inflation, and the proportion and number of those involved in workfare programs are going to decline slightly. As a result, gross average earnings will rise by around 3 per cent. Hungary's rate of inflation fell by 0.1 per cent in April, and six other EU countries had deflation as well. The Hungarian data can primarily be attributable to the dictated overhead reductions and not to market forces: the core inflation rate was 2.4 per cent. In the rest of the year the rise of market prices is inevitable; however, taking into account the planned overhead reductions in the autumn, the rate of inflation in 2014 might be around 0,5 per cent or below. As a result, real incomes will increase by about 3 per cent, retail sales by 3 per cent and consumption by around 2 per cent. An artificial increase in the purchasing power like in 2014 is unlikely in 2015.

The general government deficit in the first four months of 2014 nearly reached the annual figure planned for the year, and at the end of the first quarter the public debt to GDP ratio rose temporarily to 84.6 per from its artificially low 79.2 per cent at the end of 2013. Since avoiding the restart of the excessive deficit procedure, which is important for accessing to EU transfers in the future, remains the primary goal of the government, it is almost certain that the general government deficit will be less than 3 per cent of GDP. It is assumed that the burdens of this policy will affect the business sphere directly and households only indirectly (as companies will pass their extra costs to them sooner or later).

THE FORECAST OF GKI FOR 2014

	Description	2011	2012	2013	Jan-March 2014	2014 forecast
1.	GDP (%)	101.6	98.3	101.1	103.5	102.5
2.	Industrial production (%)	105.4	98.3	101.4	108.4	105
3.	Investments (%)	95.5	94.8	107.2	122.6	108
4.	Construction services (%)	92.2	94.1	109.6	127.6	110
5.	Retail trade turnover (%)	100.2	98.1	101.9	106.4	103
6.	Exports (current prices in euro, %)	112	100.2	102.5	105.1	104
7.	Imports (current prices in euro, %)	110.6	100.4	101.8	104.0	105
8.	Foreign trade balance (EUR billion)	7.1	6.8	7.0	1.9	6.8
9	Balance of the current and capital account (EUR billion)	2.7	3.4	6.3	-	6.3
10	Average exchange rate of euro (in HUF)	279.2	289.4	296.9	307.8**	308
11	General government deficit* (HUF billion)	1734.4	607.5	929.2	951.1**	1130
12	Index of average gross earnings	105.2	104.6	103.4	101.8	103
13	Consumer price index	103.9	105.7	101.7	100.0**	100.5
14	Consumer price index at the end of the period (corresponding month of the previous year=100)	104.1	105.0	100.4	99.9**	101.7
15	Rate of unemployment (at the end of the period, %)	10.7	10.7	9.1	8.1***	8.6

* *Cash flow basis, without local governments*

** *January-April 2014*

*** *Including fostered workers, February-April 2014*

Sources of actual data: CSO, NBH, NGM

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