



Forecast for 2021

(Summary of the forecast of GKI Economic Research Co. as of March 31, 2021)

Due to better-than-expected Q4 data last year and relatively favourable economic expectations at the beginning of this year—despite the third wave of the pandemic and mixed data—GKI raised its growth forecast for 2021 by 0.6 percentage points to 4.3 per cent (4-4.5 per cent) compared to the end of last year. This brings Hungarian GDP close to, but not yet at, its 2019 level. The main negative risk of the projection is that the substantive restrictions caused by the pandemic will persist for a while in the second half of the year (either in Hungary or in its main trading partners). However, the approaching elections in 2022 may have a stimulating effect by encouraging the government to further loosen fiscal policy. According to GKI, employment and unemployment will remain broadly unchanged on an annual average but will improve over the course of the year. Real earnings will increase by 2 per cent, consumption by 3.5 per cent and investments by 6 per cent. Although the general government deficit is decreasing, it will be unreasonably high: after last year's 8.1 per cent it could be around 6.5 per cent this year. Inflation is accelerating, it will be around 3.9 per cent after 3.3 per cent in 2020, and the forint will weaken further on an annual average, thus one euro will be worth at least HUF365 this year after HUF351 last year, and it cannot be ruled out that the National Bank of Hungary will be forced to tighten up. The external financing capacity will be in a stable surplus, due to the expected inflow of EU transfers. Although the international isolation of the Hungarian government is increasing, no change in policy is expected this year.

The recession caused by the coronavirus pandemic in 2020 was **smaller than expected** in most countries around the world. **Global economic growth prospects have improved** in recent weeks. The emergence and increasing use of effective vaccines against coronavirus and the fiscal expansion implemented by most countries have played an important role in this. After a 3.5 per cent decline in 2020, global aggregate GDP is likely to grow by 5.5 per cent in 2021. As a result, global output could reach **pre-pandemic levels** by mid-2021. This is true for the US and some large Asian countries (such as China, South Korea, India) but **not for the EU**.

The **EU's economic sentiment index** reached its eleven-month peak in February and it is beginning to approach its value in March last year, i.e., before the fall caused by the crisis. **GKI's economic sentiment index** rose slightly in March, approaching its otherwise fairly low top level since the start of the pandemic measured in January. At the same time, the economic sentiment index did not offset even 60 per cent of its fall in April last year by March this year. The business sector corrected more, the consumer one less.

In Hungarian **economic policy**, political-power-popularity considerations take precedence over health and the need for balanced socio-economic processes, even in the crisis caused by the pandemic. The international support for and acceptance of this policy has deteriorated considerably in recent months by the US, the EU, Christian Democratic parties and even Poland. Strengthening relations with Russia and China cannot replace this. In the context of the 2022 elections, the government **appears to be more afraid of a deeper economic crisis than of a health disaster**, as a result of which it cannot avoid the latter to the extent that would otherwise be possible. **Neither a coherent economic crisis management programme nor a public and professionally sound vaccination plan were announced until spring 2021.**

Real wage growth may have been minimal last year, with a high degree of differentiation. The real value of pensions fell and household consumption dropped by 2.6 per cent. The latter is significantly **better** than the EU average. **This summer, after a 2 percentage point reduction in social contribution**



tax and a 4 per cent lift in the minimum wage in February, a further 1 percentage point growth is expected, which implies an annual average increase in gross earnings of around 6 per cent and real earnings of around 2 per cent. The real value of **pensions** will be up by around 3 per cent due to the payment of the first week of the 13th month pension and the expected pension premium. **Consumption growth could be close to 3.5 per cent.**

Gross fixed capital formation will increase by up to 6 per cent after a fall of more than 7 per cent last year. In other words, the 2019 level of investments will not be reached this year as both large industrial investments and development projects relying on EU funds are just getting started. Although significant amounts of cheap resources support the investment projects of firms, the size and structure of future demand are uncertain, causing many firms to **postpone** their previously planned investments.

Construction, industry and transport are expected to expand fastest this year, and only tourism and catering and real estate sectors are expected to contract further.

Employment fell significantly by 0.9 per cent last year. For jobholders, the decrease was 3.4 per cent, possibly even greater, but below the rate of GDP decline. **Unemployment** rose by 0.8 percentage points to 4.1 per cent. This year it will be followed by stagnation. However, the trend over the course of the year will be the opposite, the deterioration in the beginning of 2021 may be followed by an improvement in the second half of the year.

Last year, **corporate and household loans** rose by 10 per cent and 14 per cent, respectively, but this was largely due to the moratorium on loan repayments. After the lifting of the moratorium this year, the ability to repay and borrow will be very differentiated, the former will deteriorate, the latter will increase, and overall, **the quality of the growing loan portfolio will deteriorate.** The profitability of the banks remains positive but continues to decline.

The **general government** cash-flow deficit in 2020 was HUF5,549bn, about **15 times higher** than foreseen in the Budget Act, and the deficit-to-GDP (ESA) ratio was 8.1 per cent instead of 1 per cent. The deficit will fall to only HUF3700bn, or about 6.5 per cent of GDP in 2021 as partly because of the carry-over effects of crisis management, and partly because of the forthcoming 2022 elections, the **deficit reduction ambition** will be missing during the advancement of EU transfers. This will also be made possible by the EU's crisis management fund and the further suspension of the 3 per cent deficit ceiling in Europe. The **government debt**-to-GDP ratio was 81 per cent in 2020 (up from 66.4 per cent in 2019) and it is projected to remain at this level in 2021. The debt ratio will thus be **above its 2011 peak.**

In 2021, most of the world major central banks and the National Bank of Hungary as well will most likely maintain **loose monetary policy.** Hungary's central bank is expected to keep its base rate at 0.6 per cent, with inflation higher than last year at around 3.9 per cent on average this year and the forint weakening further: **the euro exchange rate is expected to average at least HUF365,** after HUF351 last year. In the event of a higher risk of inflation or a further sharp weakening of the forint, the interest rate offered in the one-week deposit tender may be raised.

The **current account balance** was negative as a consequence of the demand stimulating economic policy in 2019, and turned into a minimal surplus of EUR0.1bn in 2020 as a result of an inevitable decline in domestic consumption last year. Although deterioration is expected this year, **Hungary's financing capacity will remain permanently positive due to the expected inflows of EU transfers.** Hungary's **debt ratio** and **foreign exchange reserves** increased in 2020, and they are likely to stabilise this year. **International credit rating agencies** left the Hungarian rating unchanged at the beginning of 2021, thus confirming their modest rating typical of the period of the economic crisis of 2008-2009 (followed by a further deterioration until 2012 and an improvement from 2015-2016 to early 2019). This places Hungary among the **worst performers** in the region.



The forecast of GKI for 2021

	2018 (fact)	2019 (fact)	2020 (fact)	2021		
				September	December	March
GDP	105.4	104.6	95.0	104.5	103.7	104.3
• Agriculture (1)	104.1	100.4	93.3	100	100	104
• Industry (2)	103.3	104.1	95.2	104	104.5	106
• Construction (3)	115.1	113.0	90.6	108	105	107
• Trade (4)	110.8	110.8	101.4	-	-	104
• Commercial lodgings and catering (5)	104.7	106.5	67.8	-	-	92
• Transport and storage (6)	106.5	105.2	83.4	104	104	106
• Information, communications (7)	110.4	108.8	106.2	105	105	106
• Financial services (8)	104.9	108.1	103.5	103	102	103
• Real estate services (9)	104.5	98.9	94.6	105	100	99
• Professional, scientific, technical activities (10)	109.6	106.5	92.7	107	107	107
• Public administration, education, healthcare (11)	100.9	100.3	96.3	102	102	103
• Arts, entertainment (12)	107.6	106.5	90.3	105	105	103
• Core growth (2)+(3)+(4)+(5)+(6)+(7)+(8)+(9)+(10)	106.8	105.9	93.1	105	104	103
GDP domestic demand	107.1	106.0	97.3	104.5	103.3	105
• Private consumption	104.5	104.2	97.4	103	103	103.5
• Gross fixed capital formation	116.4	112.2	92.7	107	104	106
Exports (goods and services)	105.0	105.8	93.3	107.5	107.5	107.5
Imports (goods and services)	107.2	107.2	96.1	107.5	108	108.5
Consumer price index (preceding year = 100)	102.8	103.4	103.3	103.8	103.5	103.9
Unemployment rate (annual average)	3.7	3.5	4.1	4.5	4.5	4.1
General government balance in per cent of GDP (ESA)	-2.3	-2.0	-8.1	-5	-7	-6.5
Balance of the current and capital accounts						
• EUR billion	3.4	2.1	2.8	1	1.5	2.5
• In per cent of GDP	2.5	1.4	2.1	0.7	1.1	1.7

Source: HCSO, GKI