The forecast of GKI Economic Research Co. for 2021

(Summary of the June update of the March 2021 forecast for the press, 30 June 2021)

GKI raised its growth forecast for this year very significantly to 7 per cent from 4.3 per cent in March. This is based on a faster-than-expected recovery from the crisis, faster growth compared to the previous quarter, which is already in its third quarter, the end of the third wave of the pandemic and favourable economic expectations. In March, GKI underestimated the export surplus in particular. This year, household consumption is expected to rise by 3-4 per cent and investments by 6 per cent. However, the internal and external equilibria are likely to be worse than assumed in March.

The forecast of GKI for 2021

	2018	2019	2020	2021			
		(fact)		September	December	March	**June**
GDP	105.4	104.6	**95.0**	104.5	103.7	104.3	**107**
• Agriculture (1)	104.1	100.4	**93.2**	100	100	104	**105**
• Industry (2)	103.3	104.1	**95.1**	104	104.5	106	**110**
• Construction (3)	115.1	113.0	**90.6**	108	105	107	**109**
• Trade (4)	110.8	110.8	**101.2**	-	-	104	**106**
• Commercial lodgings and catering (5)	104.7	106.5	**67.8**	-	-	92	**103**
• Transport and storage (6)	106.5	105.2	**83.7**	104	104	106	**109**
• Information, communications (7)	110.4	108.8	**106.1**	105	105	106	**106**
• Financial services (8)	104.9	108.1	**103.4**	103	102	103	**103.5**
• Real estate services (9)	104.5	98.9	**94.8**	105	100	99	**99**
• Professional, scientific, technical activities (10)	109.6	106.5	**92.8**	107	107	107	**107**
• Public administration, education, healthcare (11)	100.9	100.3	**96.5**	102	102	103	**107**
• Arts, entertainment (12)	107.6	106.5	**90.6**	105	105	103	**103**
• Core growth (2)+(3)+(4)+(5)+(6)+(7)+(8)+(9)+(10)	106.8	105.9	**93.1**	105	104	103	**104**
GDP domestic demand	107.1	106.0	**95.0**	104.5	103.3	105	**105.7**
• Private consumption	104.5	104.2	**97.4**	103	103	103.5	**103.5**
• Gross fixed capital formation	116.4	112.2	**92.7**	107	104	106	**106**
Exports (goods and services)	105.0	105.8	**93.3**	107.5	107.5	107.5	**110.5**
Imports (goods and services)	107.2	107.2	**96.1**	107.5	108	108.5	**109**
Consumer price index (preceding year = 100)	102.8	103.4	**103.3**	103.8	103.5	103.9	**104.2**
Unemployment rate (annual average)	3.7	3.5	**4.3**	4.5	4.5	4.1	**4.1**
General government balance in per cent of GDP (ESA)	-2.3	-2.0	**-8.1**	-5	-7	-6.5	**-7.5**
Balance of the current and capital accounts							
• EUR billion	3.4	2.0	**1.0**	1	1.5	2.5	**-0.5**
• In per cent of GDP	2.5	1.4	**0.7**	0.7	1.1	1.7	**-0.3**

Source: HCSO, GKI

The **global economy** is set to grow and raise prices faster than previously thought, with rising deficits and differentiation. According to the European Commission's spring forecast, the EU's aggregate GDP growth rate is expected to be 4.2 per cent in 2021, but information that has since come to light suggests that it will grow **faster** than this. The main risks to the global economy and to the economic growth of individual countries are the **effectiveness of vaccination programmes**, the emergence of a new wave of the pandemic, and the faster completion of this process than thought. Household **consumption and saving trends** are uncertain.

The EU's **economic sentiment index** reached its pre-crisis level in the spring and then reached a three-year high in May. In May and June, the **GKI economic sentiment index** also reached its level at the beginning of last year, i.e., before the pandemic.

As economic policy continues to expand the loyalty-based, **one-centre, state-centred and non-market-centred** economic and social governance, **a sharp debate has emerged between the Ministry of Finance and the MNB** on the inflationary impact of the high general government deficit. In the run-up to the elections, the government has a political interest in both rapid growth and low inflation. Presumably this explains the **economic "two-headedness" of the government**. A truly unrealistic deficit in 2022 will have to be dealt with by the government of the day after the elections, presumably by cutting back on useless investments.

Investment activity has so far only strengthened in the public and household sectors, not yet in the business sector. This year, real earnings and real pensions are expected to rise by around 4 per cent (the latter thanks to the first week of the 13th month pension and the pension premium). The increase in **consumption** may be around 3.5 per cent due to the differentiation in incomes.

GDP is expected to **exceed its 2019 level** already this year, and growth is expected in all sectors except the real estate sector. Gross production in **industry** is expected to grow by slightly above 10 per cent, **construction** by 8-9 per cent and **retail sales** by over 5 per cent. Exports of goods and services are expected to **grow by about 1.5 percentage points faster than imports**, with terms of trade deteriorating by about 1 per cent, mainly due to rising oil prices. Total foreign trade assets could be around EUR10bn.

The significant decrease in **employment** last year, but below the GDP decline, and the rise in unemployment are expected to be followed by a stagnation this year, and the fluctuation at the beginning of the year is expected to improve from the end of spring. If no further outbreaks occur, a slightly higher **employment rate of just over 62 per cent** is expected **on an annual average**, similar to last year, and **unemployment of 4.1 per cent** is expected to be close to last year.

This spring's amendment to the **2021 budget**, adopted early last summer, raised the deficit to 7.5 per cent of GDP, well above the previously planned level of 2.9 per cent of GDP. (This is just below the 8.1% deficit in 2020.) This would be the same as the EU average, but the third highest in the CEE region. The cash-flow deficit increased from HUF1,491bn to HUF3,990bn. **GKI expects a deficit-to-GDP ratio of around 7.5 per cent and government debt below 80 per cent.**

As a result of the still stimulating fiscal policy, monetary policy, which announced the start of spectacular tightening steps, will not be able to substantially reduce inflation; **an annual average price increase of 4.2 per cent, a base rate of 1.2 per cent at the end of the year and an annual average exchange rate of the forint to the euro of HUF350-355 can be expected**.

Despite the improving foreign trade balance, a significant deficit is expected due to Audi's huge dividend of EUR6bn. Accordingly, GKI expects to see a **current account deficit of some EUR 4.5 billion** (3 per cent of GDP) and a **negative financing capacity** (EUR -0.5 billion, or 0.3 per cent of GDP) this year, despite the EU transfers of some EUR 4 billion.

For more information:
András Vértes (vertes.andras@gki.hu);
Gábor Karsai (karsai.gabor@gki.hu)