Stagnation after recession

GKI Economic Research Co. forecasts that after a recession of about 1.5 per cent in 2012, no growth can be expected in Hungary in 2013 either. Inflation, however, will slow down significantly, by more than 1 percentage point, due to some enforced government measures. The main purpose of the government, that is, avoiding the excessive deficit procedure, is getting more and more at odds with the launch of an economic policy favouring the forthcoming elections.

Economic data at the end of 2012 show that the decline of GDP most probably reached 1.5 per cent, predicted by GKI a year before. In November industry was lower by almost 7 per cent, construction by 12 per cent, and retail sales by 4.1 per cent than a year ago. 40 per cent less maize was harvested than in 2011. Meanwhile, GDP fell by 0.3 per cent in the EU, whereas the majority of the countries in the CEE region were able to grow (Slovakia and Poland by 2.5 per cent). This indicates that the causes of recession can be found in the domestic economy and economic policy.

No changes can be expected in 2013 in this regard. In spite of the slightly improving European economy, only an overall stagnation of GDP can be expected due to the weakness of domestic demand. In 2013 investments will contract further by 2 per cent. The accelerated payment of EU transfers will hardly be sufficient to offset declining business investments due to the lack of legal certainty and insufficient market demand, as well as investments being completed in the automotive industry. Consumption will probably decline further, this time only by a more modest rate, around 0.5 per cent. Although the real value of minimum wages may increase by about 1 per cent in 2013, the financial positions of neither companies nor the budget will allow for such an increase for workers in general if the inflation rate will be 4.5 per cent as projected by GKI. The rate of inflation is currently very uncertain. Further forced reduction of overheads, not justified by world market prices, may result in an additional drop in inflation. However, it would be very difficult to lower inflation if service companies pass on tax increases to their customers, or further tax increases take place for, say, budgetary reasons, or the price of food would be unfavourable due to bad weather. Indebted households with an uncertain future would hardly increase their consumption even if trends in real wages would make it possible for them.

The external balance will be favourable. However, the negative impact of the income outflows (profits and interests) will be larger than the balance improving effects of the foreign trade surplus and the inflow of EU funds. The single real purpose of the government's economic policy has been to avoid the excessive deficit procedure, and thus ensuring access to the financial sources of the cohesion fund by keeping the general government deficit below 3 per cent of GDP permanently. This goal was achieved successfully in 2012. However, existing tensions in the budget and the launch of an economic policy influenced by the forthcoming elections will jeopardize it for 2013 and 2014 as well. Easing the budget may also lead to tax increases. The government's economic policy and the stance of the new central bank leadership with a Monetary Council consisting of members appointed entirely by the current majority government are uncertain. If the EU terminated the current excessive deficit procedure against Hungary, it would improve the assessment of Hungary and the forint in the short term; however, it would increase the risk of starting an economic policy influenced by the forthcoming elections in the second half of the year.

THE FORECAST OF GKI FOR 2013

	Description	2010	2011	Jan-Nov 2012	2012 forecast	2013 forecast
1.	GDP (%)	101.3	101.6	98.7[2]	98.5	100
2.	Industrial production (%)	110.5	105.4	98.5	98.5	101
3.	Investments (%)	94.4	95.5	94.8[2]	96	98
4.	Construction services (%)	89.9	92.2	94.9	95	100
5.	Retail trade turnover (%)	97.7	100.2	98.0	98	99.5
6.	Exports (current prices in euro, %)	121.4	112	100.8	101	105
7.	Imports (current prices in euro, %)	119.4	110.6	100.9	101	104.5
8.	Foreign trade balance (EUR billion)	5.5	7	6.8	7.5	8
9	Current and capital account balance (EUR billion)	2.9	3.6	2.7[2]	3.5	2.8
10	Average exchange rate of euro (in HUF)	275.4	279.2	289.4[3]	289.4	285
11	General government deficit (HUF billion)[1]	870	1734.4	607.5[3]	607.5	800
12	Index of average gross earnings	101.4	105.2	104.6	104.5	104
13	Consumer price index	104.9	103.9	105.7[3]	105.7	104.5
14	Consumer price index (corresponding month of the previous year = 100)	104.7	104.1	105.0[3]	105	104.5
15	Rate of unemployment (at the end of the period, %)	10.8	10.7	10.6[4]	10.7	10.7

1. Cash flow basis, without local governments
2. Jan-Sep 2012
3. Actual figure, 2012
4. Sep-Nov 2012
Sources of actual data: CSO, NBH, NGM

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