



## **FALLING BEHIND MORE AND MORE**

The 2012 forecast of GKI Economic Research Co. proved to be almost completely accurate: GDP fell by 1.7 per cent in Hungary. Only stagnation can be expected this year, and the lagging behind of the Hungarian economy in the region continues. Inflation will slow down significantly by more than 2 percentage points due to non-market based measures of the government to reduce gas and electricity prices. Thus, real wages will rise modestly but temporarily. However, new austerity measures can be expected in order to avoid the excessive deficit procedure, which seems to be the main purpose of the government. It is likely that these measures will mainly affect the business sphere, including the banking sector; however, their extra burdens will be passed on to the general public and companies, further reducing the propensity to invest.

External conditions will hardly improve. Following last year's 0.3 per cent decline, EU's GDP may increase by 0.1 per cent in 2013, whereas the growth rate of GDP in Germany will slow down to 0.5 per cent from 0.7 per cent. All competitors of Hungary in the CEE region will be able to grow except Slovenia, Croatia and the stagnating Czech Republic. In Hungary agriculture (after last year's major drought), industry and the IT sector can expand slightly in 2013, whereas all other sectors of the economy (trade, services) will fall due to steadily declining investments. The domestic market is shrinking and small businesses suffer from this.

According to the European Commission, Hungary's general government deficit will be 3.4 per cent of GDP both in 2013 and 2014. However, it may be reduced to below 3 per cent by introducing additional permanent structural measures. GKI believes that the government will announce a HUF200 billion adjustment package soon in order to avoid the excessive deficit procedure and the impending possibility of EU sanctions threatening by the withdrawal of cohesion funds. It is a major question whether the budget will be loosened from the second half of 2013 due the forthcoming elections. Announcing a reduction of overhead costs, and promising a salary increase for teachers as well as a one-off pension increase may mean that the loosening policy has already started. (The EU seems to be resolved to quickly restart the excessive deficit procedure if it considers it necessary.)

Real wages will increase by about 0.5 per cent in 2013, and the minimum wage will also increase by 2 per cent. Indebted households with uncertain future would hardly increase their consumption. The stagnation of employment and unemployment will only be achieved statistically due to the increasing number of those involved in public works. Unfortunately, this cannot be otherwise in an economy unable to grow. 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.

The government's economic policy and the stance of the new central bank leadership are also uncertain. Monetary and fiscal easing, which can be expected, will be contained by the financial markets and the exchange rate of the forint.

## THE FORECAST OF GKI FOR 2013

Description		2010	2011	2012	2013
					forecast
1.	GDP (%)	101.3	101.6	98.3	100
2.	Industrial production (%)	110.5	105.4	98.3	101
3.	Investments (%)	94.4	95.5	94.8	98
4.	Construction services (%)	89.9	92.2	94.1	100
5.	Retail trade turnover (%)	97.7	100.2	98.1	99.5
6.	Exports (current prices in euro, %)	121.4	112	100.2	103
7.	Imports (current prices in euro, %)	119.4	110.6	100.4	102.5
8.	Foreign trade balance (EUR billion)	5.5	7.1	6.9	7.5
9	Current and capital account balance (EUR billion)	2.9	3.6	3.0**	2.8
10	Average exchange rate of euro (in HUF)	275.4	279.2	289.4	290
11	General government deficit (HUF billion)*	870	1734.4	607.5	800
12	Index of average gross earnings	101.4	105.2	104.6	104
13	Consumer price index	104.9	103.9	105.7	103.5
14	Consumer price index at the end of the year (corresponding month of the previous year=100)	104.7	104.1	105	103.5
15	Rate of unemployment (at the end of the period, %)	10.8	10.7	10.7	10.7

\*. Cash flow basis, without local governments

\*\*GKI estimates

Sources of actual data: CSO, NBH, NGM

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