



THE IMPROVEMENT IS TEMPORARY

According to the forecast of GKI Economic Research Co., the Hungarian economy grows by around 1 per cent in 2013, slightly faster than previously thought. However, GDP in 2013 will still be below its 2011 level. This year's increase is almost entirely due to the exceptionally good agricultural harvest thanks to the much better weather. Investments and consumption will increase by 4 and 0.5 per cent, respectively. In 2014 the rate of GDP growth will accelerate to around 1.3 per cent; however, a slowdown can be expected compared to the last quarter of 2013.

The EU economy stagnates this year, and it is expected to grow by 1.4 per cent in 2014. This is almost fully in line with the spring forecast of the EU. However, the European Commission has improved Hungary's growth projections: now they expect 0.7 per cent in 2013 (instead of 0.2 per cent forecasted in the spring) and 1.8 per cent in 2014 (instead of 1.4 per cent). Other international organizations (e.g., OECD) reported similar corrections.

In Hungary GDP grew by 1.7 per cent in the third quarter of 2013, faster than expected. The increase was expected; however, its magnitude is surprising. The positive result can be attributed to several factors. On the one hand, as far as production is concerned, especially agriculture, but also construction developed better than previously thought. This was also true for investments. On the other hand, the Hungarian Central Statistical Office adjusted their GDP data of previous quarters, decreasing slightly those of the first three quarters of 2012 and increasing markedly those of the first two quarters of 2013.

Based on gross production data, industry and trade only stagnated in the first three quarters of 2013. However, there were clear signs of growth in the third quarter. The GKI-Erste economic sentiment index suggests further improvement both in the business sector and among consumers. In the fourth quarter, compared to last year's low base, GDP is likely to increase by about 2 per cent, and as a result, GDP will grow by 1 per cent in 2013. (In September, GKI projected 0.3 per cent GDP growth for 2013.) The increase will be almost exclusively due to agriculture, to the relatively good harvest after last year's very bad one. The higher growth in the fourth quarter will result from the rapid development of the construction industry (starting from a very low base), as well as the slight improvement of industrial exports (or the European economy in general) and the slowly rising retail turnover thanks to growing real income of households. Real domestic employment (without public work schemes) declines this year, and it will mainly stagnate next year. At the same time, official unemployment figures will seem to be favourable before the elections due to expanded public work schemes.

In 2014, if weather conditions remain more or less unchanged, GDP may increase as a result of the acceleration of industrial exports and the termination of the decline in service industries. However, GDP will increase barely faster than in 2013, by around 1.3 per cent. In addition, there is an unfavourable structural change: while imports next year are expected to grow slower than exports (which in itself can be a sign of recovery), this will be due to temporarily rising consumption (by 1.5 per cent) in the year of elections, and not to investments, which will increase probably slower than this year, only by 2 per cent. The investment climate continues to be poor due to legal uncertainty. The new Funding for Growth Scheme of the National Bank of Hungary cannot change this situation markedly. This suggests that the acceleration does not continue, and GDP is expected to slow down slightly compared to the fourth quarter of 2013.

GKI FORECAST FOR 2013-2014

Description	2011	2012	Jan-Sep 2013	2013 2014 forecast	
1. GDP (%)	101,6	98,3	100,5	101	101,3
2. Industrial production (%)	105,4	98,3	100,0	101	103
3. Investments (%)	95,5	94,8	103,0	104	102
4. Construction services (%)	92,2	94,1	108,0	107	105
5. Retail trade turnover (%)	100,2	98,1	100,0	100,5	102
6. Exports (current prices in euro, %)	112	100,2	101,6	103	105
7. Imports (current prices in euro, %)	110,6	100,4	101,6	103	106
8. Foreign trade balance (EUR billion)	7,1	6,8	5,3	7,0	6,3
9. Current and capital account balance (EUR billion)	3,6	4,3	2,8**	4,5	4,7
10. Average exchange rate of euro (in HUF)	279,2	289,4	296,6***	297	295
11. General government deficit* (HUF billion)	1734,4	607,5	887,7***	1000	1000
12. Index of average gross earnings	105,2	104,6	103,6	103,5	104,5
13. Consumer price index	103,9	105,7	101,9***	101,8	102,1
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104,1	105,0	100,9***	100,9	104
15. Rate of unemployment (at the end of the period, %)	10,7	10,7	9,8****	9,8	10

* Cash flow basis, without local governments

** First half of 2013

*** Jan-Oct 2013

**** Aug-Oct 2013

Sources of actual data: CSO, NBH, NGM

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