CHANGE IN THE GROWTH TREND?

GKI Economic Research Co. is of the opinion that although economic policy influenced by the elections has a short-term stimulating effect, it does not create the foundations for sustained growth without restoring legal certainty and the capital-absorption potential. Therefore, the growth forecast of GKI for 2014 remains more pessimistic than that of the government. The upswing of the European business cycle has a favourable impact on Hungarian exports and the purchasing power of households, together with the performance of companies selling their goods and services in the domestic market, is somewhat increasing as well. However, this is little more than a substitute for last year's hardly repeatable dynamism of agriculture.

The Hungarian economy performed well in 2013 compared to the stagnant EU and the still declining eurozone (–0.4 per cent) and it grew by 1.1 per cent. In the CEE region, GDP of the Baltic countries, Romania and Poland grew faster, whereas that of Slovakia and Bulgaria more slowly, and the economy of the Czech Republic, Slovenia and Croatia continued to decline. However, the 2013 performance of the Hungarian economy was significantly improved by the fact that the statistical base of the previous year was very low (1.7 per cent decline in 2012) and moreover, it was largely due to agriculture (or good weather). (Excluding agriculture, the GDP decline of about 1 per cent in 2012 was followed by around 0.3 per cent growth in 2013.) Considering the 2011-2013 annual average growth rate of 0.4 per cent in Hungary, it did not exceed the EU average, whereas in the CEE region seven countries performed better and three countries worse than Hungary.

GKI expects around 1.5 per cent GDP growth in 2014, which is equal to the EU average; however, in the CEE region it is only higher than those in Slovenia and Croatia. GKI raised its GDP growth forecast from 1.3 per cent to 1.5 per cent due to EU supported investments expanding faster than previously thought. The improvement of the European business cycle makes the slight acceleration of industrial production to 3 per cent likely. The growth rates of construction, although they remain relatively high, are expected to slow down. Very few new homes were built in 2013 (7300), and a further decline is likely in 2014. Business investments were hardly expanding, and the impact of the Funding for Growth Scheme of the NBH was minimal. The increase of real wages by about 2 per cent may result in an increase of retail sales and consumption by around 1.5 per cent. Households are cautious about spending due to the weak forint, the rising burden of foreign currency loans, the frozen credit market, and the high level of uncertainty. Uncertainty concerns jobs, the sustainability of dictated price cuts, the rapid deterioration of health care and the amount of future pensions. For families with FX-loans the income-draining effect of the weak forint is greater than the decline in overheads.

The aim of the Monetary Council, whose credibility is very weak, is the continuous reduction of the base rate. The growth-promoting effects of the reduction of the base rate, however, cannot be detected as it does not affect the main problem of the Hungarian economy, the general lack of confidence caused by the destruction of market economy institutions and thus further reducing the propensity to invest. The intention of the continued reduction of the base rate until the elections is a more and more risky element of political window-dressing. The slowing down of the Fed's financial pump, the deteriorating perception of Turkey and Ukraine as well as the decreasing Hungarian interest rate spread could increase depreciation pressures on the forint. The weak forint also raises the debt service burden on the business sector and the state, at the same time reducing their demand. It is hardly a coincidence that after the weakening of the forint in February, GKI surveys detected that the assessment of the Hungarian economic situation dramatically worsened.

As the use of budgetary reserves has already begun, the forint is weaker than projected, and the interest rate of forint bonds are expected to raise, the general government deficit relative to GDP could only be kept under the targeted 3 per cent level only by the introduction of interim measures.

GKI FORECAST FOR -2014

	Description	2011	2012	2013	2014 forecast
1.	GDP (%)	101.6	98.3	101.1	101.5
2.	Industrial production (%)	105.4	98.3	101.4	103
3.	Investments (%)	95.5	94.8	107.2	104
4.	Construction services (%)	92.2	94.1	109.6	105
5.	Retail trade turnover (%)	100.2	98.1	100.9	101.5
6.	Exports (current prices in euro, %)	112	100.2	102.5	104
7.	Imports (current prices in euro, %)	110.6	100.4	101.8	105
8.	Foreign trade balance (EUR billion)	7.1	6.8	7.3	6.8
9.	Current and capital account balance (EUR billion)	3.6	4.3	5.5**	5.5
10.	Average exchange rate of euro (in HUF)	279.2	289.4	296.9	300
11.	General government deficit* (HUF billion)	1734.4	607.5	929.2	1000
12.	Index of average gross earnings	105.2	104.6	103.4	103.5
13.	Consumer price index	103.9	105.7	101.7	101.5
14.	Consumer price index at the end of the period (corresponding month of the previous year=100)	104.1	105.0	100.4	102.9
15.	Rate of unemployment (at the end of the period, %)	10.7	10.7	9.1	9.8

** Cash flow basis, without local governments*
** *GKI estimates*
Sources of actual data: CSO, NBH, NGM

GKI ECONOMIC RESEARCH CO.

1092 Budapest, Ráday u. 42-44.
Phone: +36 1 318 1284
E-mail: gki@gki.hu
For more information: Andras Vertes, Laszlo Akar, Gabor Karsai