



SLOWDOWN STARTED

GKI Economic Research Co. predicts that the slowdown of the Hungarian economy started in the second quarter of 2015 will continue. After 3.6 per cent in 2014, the growth rate of the GDP will be 2.7 per cent in 2015 and around 2 per cent next year, mainly due to the stagnation or decline of investments. In addition, uncertainties are increasing in the world economy as well. In the second quarter of 2015 both the general government deficit and the government debt increased. However, the external balance was favourable, and deflation terminated.

The Chinese economic slowdown and stock market falls have a negative effect on the Hungarian economy, mostly indirectly: through the shrinking of German export opportunities. However, the drop in oil and commodity prices is favourable. Although uncertainties in financial markets weaken the forint, the strengthening of the euro against the dollar mitigates this process. If the Fed starts raising the reference rate in September, it would certainly weaken the Euro and other currencies in the region, including the forint. However, it can only be expected to happen some time later. Since the Monetary Council is committed to maintain the base rate at 1.35 per cent, the exchange rate of the forint to the euro will be permanently weaker than in the first half of 2015, and it is expected to total HUF310-HUF315 in the coming months, similar to that seen in recent weeks.

The Hungarian economy grew significantly faster than the EU average in the second quarter of 2015. However, while the EU average started to accelerate, a sharp slowdown can be experienced in Hungary. In the CEE region, the Polish, Czech, Slovak and Romanian economies were accelerating, and they grew by 3-4.5 per cent, whereas GDP growth in Hungary was below 3 per cent. During the next few months, marked deceleration can be expected especially in construction, and further decline seems to be inevitable in agriculture, mainly due to the expected poor harvest of maize. The number of employees in the Hungarian economy (with the exclusion of those involved in public work schemes) grew by 2.8 per cent in the first quarter of 2015 and by 2.4 per cent in the second quarter over the previous year. This is favourable, though indicates some deceleration. As a result of increasing purchasing power, retail sales are expanding dynamically (in which the whitening of the economy has a great role), and the consumption of households will increase by about 2.5 per cent in 2015 after last year's 1.6 per cent. The Hungarian price level continuously decreased from April 2014 to May this year, almost every month; however, it increased by 0.5 per cent in May, by 0.6 per cent in June, and by 0.4 per cent in July compared to the previous year. Taking account of falling oil prices, the annual average price level is expected to remain unchanged.

As far as the budget is concerned, 2015 started well: tax revenues were favourable. However, at the end of July the general government deficit reached the target amount for the whole year. The drying up of EU transfers played an important role in this. Payments related to projects over which the government is in dispute with the European Commission are withheld by the EU, while the government makes the payments to the beneficiaries. Additional expenditures as a consequence of measures enacted early summer, for example, in the context of migration, and the possible suspension of certain taxes and transfers by the EU indicate future tensions, not to mention the perceptible loss of quality in the majority of large redistribution systems. The government debt relative to GDP increased significantly by the end of the second quarter of 2015 (79.6 per cent), by 2 percentage points compared to the end of the first quarter, and by 2.7 percentage points compared to the end of 2014. In addition to the depreciation of the forint, the acquisition of Budapest Bank played a major role in this. However, the government may be able to reach the envisaged general government deficit and even to reduce the government debt slightly by applying mid-year interventions and using the usual tricks.

In the first half of 2015 the foreign trade surplus was EUR1.1bn higher than last year, and a record level surplus of EUR8.5bn can be expected in 2015. The current and capital account surplus was EUR3bn in the first quarter of 2015 and, according to an initial estimate of the National Bank of Hungary it was similar in the second quarter as well. Thus, the surplus is likely to reach EUR9bn in 2015, which is larger than it was last year.

THE FORECAST OF GKI FOR 2015

Description	2012	2013	2014	Q1-Q2 2015	Forecast 2015
1. GDP (%)	98.5	101.5	103.6	103.1	102.7
2. Industrial production (%)	98.3	101.4	107.6	107.3	107.5
3. Investments (%)	95.8	105.2	114.0	95.5**	100
4. Construction services (%)	94.1	109.6	114.2	108.0	103
5. Retail trade turnover (%)	98.1	101.9	104.1	106.1	105
6. Exports (current prices in euro, %)	100.0	101.7	103.9	107.9	105
7. Imports (current prices in euro, %)	100.5	102.0	104.3	105.8	103
8. Foreign trade balance (EUR billion)	6.8	6.6	6.4	4.3	8.5
9. Balance of the current and capital account (EUR billion)	4.3	7.7	8.1	3.0**	9.0
10. Average exchange rate of euro (in HUF)	289.4	296.9	308.7	308.0***	310
11. General government deficit* (HUF billion)	607.5	929.2	825.7	894.1***	900
12. Index of average gross earnings	104.6	103.4	103.0	103.5	102.7
13. Consumer price index	105.7	101.7	99.8	99.7***	100
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105.0	100.4	99.3	100.4***	102
15. Rate of unemployment (at the end of the period, %)	10.7	9.1	7.1	6.8****	7

* Cash flow basis, without local governments

** First quarter of 2015

*** January-July 2015

**** May-July 2015

Sources of actual data: CSO, NBH, NGM

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