

The latest research of IEER examines the territorial inequalities pertaining to various social and economic segments. The social and economic processes which have taken place since the regime change in Hungary are very heterogeneous and often not uniform on a national level. Through the analysis of these processes we try to introduce profiles depicting the social and economic development of Hungary's regions. On the one hand, this involves the evaluation and comparison of the situation among regions; on the other, an examination of internal segmentation, as the regions themselves are not homogeneous. This is best illustrated using the per capita GDP, measured as a percentage of the national average.

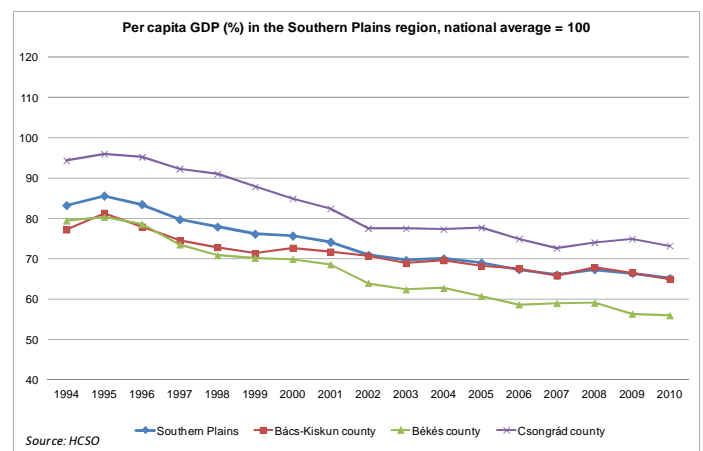
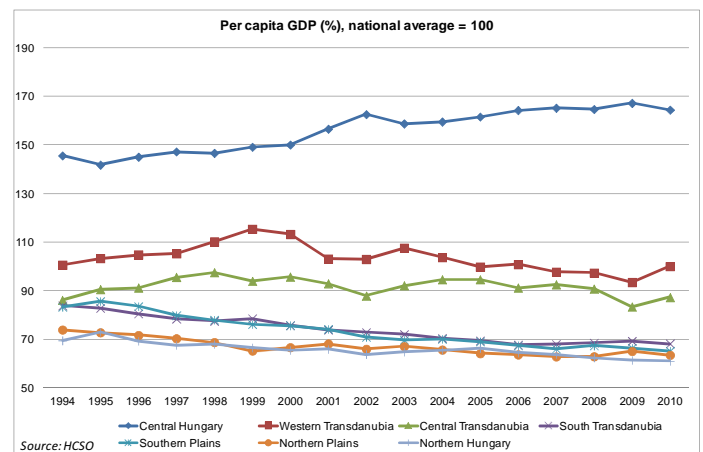
Compared to other regions, Central Hungary is characterized by a huge advantage in terms of development; all other regions have a per capita GDP far below the Western European average. The Southern Great Plains region is in a particularly bad state, and within this region Békés County is one of the most backward. Since the regime change, difficult access to local labor markets, low investment rates, low business density, lack of foreign firms, a high (and respectively higher than the national average) unemployment rate, a life expectancy rate lower than the national average, emigration and depopulation, and the deterioration of the relative income of the population are all characteristic of the economic and social situation of Békés county.

Examination of social and economic processes reveals significant regional inequalities. Compared to other regions, Central Hungary is characterized by a huge advantage in terms of development; all other regions have a per capita GDP far below the Western European average. The Southern Great Plains region is in a particularly bad state, and within this region Békés County is one of the most backward. Difficult access to local labor markets, low investment rates, low business density, lack of foreign firms, a high (and respectively higher than the national average) unemployment rate, a life expectancy rate lower than the national average, emigration and depopulation, and the deterioration of the relative income of the population are all characteristic of the economic and social development of Békés county following the regime change. It is as if we saw the observations and conclusions of the epochal sociography (Viharsarok) published by Géza Féja 76 years ago relive. After so many years the people living in this territory once again have to face the dilemma of underdevelopment, despondency and emigration.

In the following we show the situation of Békés County in the light of settlement structure and access conditions, economic conditions, employment situation, household income, and demographic processes.

The integration of Békés County in the highway network improved a lot between 2007 and 2011, but most settlements are still more than an hour away from the nearest highway. The county is one of those where a highway hasn't been built; improved access is due to the M43 motorway in neighboring Csongrád County. For this reason, in term of access Békés County is considered one of the worst areas in the country.

In terms of per capita GDP based on data for the southern Great Plains region, it can be stated that not only has the relative development position declined in the region as a



whole, but this is also true individually for the region's three counties, albeit at different rates. Compared with the national average, per capita GDP in Békés County has steadily and dramatically decreased to 55% in sixteen years from 80% in 1994.

Based on performance of per capita investment, expressed in thousands of HUF, Békés County had one of the worst values in 2010. This is only half of the national average, and with exception of the nation's capital, it is just over two-thirds of the average for rural areas.

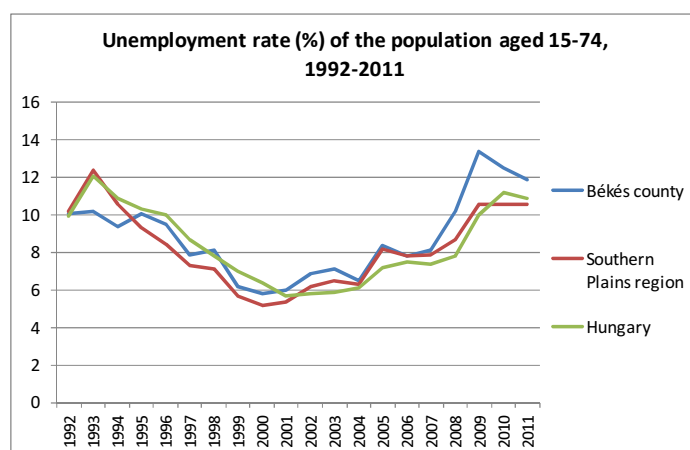
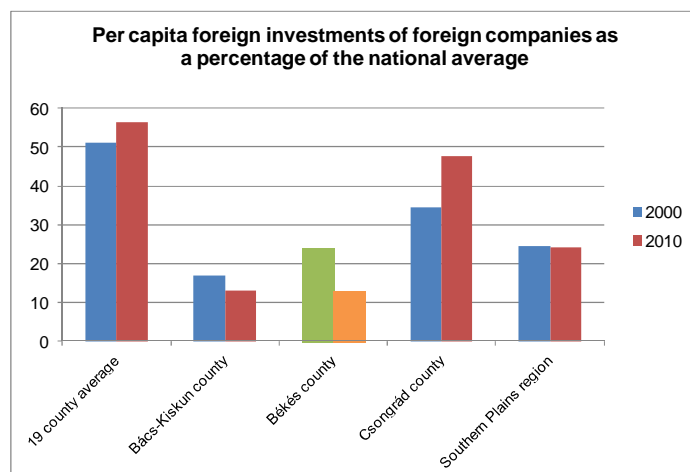
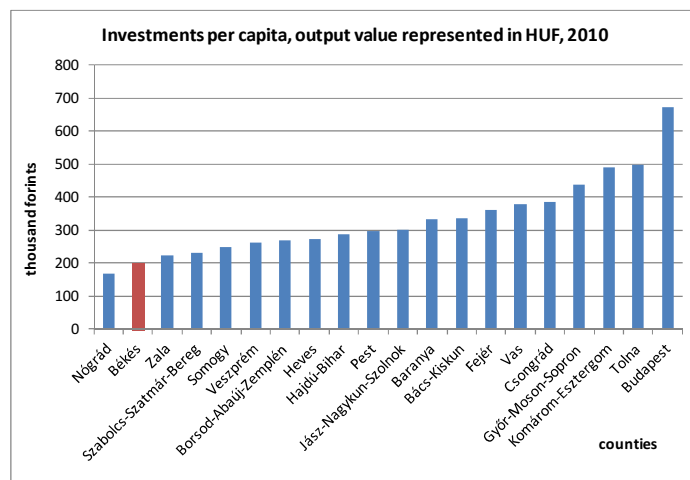
In addition to investments, it's worth looking into per capita foreign capital of foreign-owned companies and its development. Nationally this value trebled in ten years, but this growth also suffers from regional disparities. Rural areas as a whole increased slightly more than in Budapest; however the capital is still nearly double the average value of the 19 counties. Here also Békés County has fallen behind; instead of triple expansion, growth here was only one and a half times which means a relative loss of position.

The presentation of economic processes also involves examining business demographics. The number of incorporated businesses (with legal entity) with large output and employment, measured in terms of per thousand inhabitants, is the lowest in Békés County. The willingness for entrepreneurship is slightly improved by the higher specific value of unincorporated and individual businesses. However, these are more likely operate in fields with lower value-added: agriculture and individual farmership.

Looking at the unemployment rate, the national average increased to 10.9% from 6.4% between 2000 and 2011. The fallback of Békés Country can be observed in this index as well: in 2000 unemployment was well below the national rate; in 2011, however, it was already one percentage point higher. The rate has increased dramatically in the county already prior to the financial crisis, but it has slightly declined from its peak value of 13.4% in 2009. Moreover, the proportion of long-term unemployed is higher in Békés than the national average.

In addition to the adverse economic and employment situation, Békés is also seen as lagging behind in social indicators as well. Life expectancy improved both at the county and settlement levels, but compared to the national average the county levels are one year lower for both sexes.

As for the educational attainment of the above 15 year's population, in Békés County those with only primary school education are higher than the national average, whilst those with secondary education are roughly the same. The proportion of people with tertiary education, however, is only two-thirds of the national average of 13%, which carries with it the risk of further underdevelopment.



The data show a particularly poor demographic outlook in Békés County, for here natural decrease and net emigration is characteristic of all settlements. The two phenomena often reinforce each other: emigration most affects the active population, which in turn results in an increase in the proportion of elderly people, which is reflected in the difference between births and deaths as well. As a result, the population decreased by 10% over two decades and is expected to further decline. A falling population is a process apparent in most counties within Hungary, but seldom at such a level.

Growth recovers mildly, amid persistent weakness. Quarterly forecast of Ifo, Insee, and Instat institutes

After six consecutive quarters of decline, GDP in the Eurozone increased by 0.3% in Q2 2013. Economic activity is projected to expand further over the forecast horizon (+0.1% in Q3, +0.3% in Q4 2013 and +0.4% in Q1 2014) mainly on the back of the expected pick-up in external demand as well as fiscal policy gradually becoming less contractionary. However, the recovery is likely to be very modest, as fiscal austerity measures and structural reforms currently undertaken by member states will continue to hamper the expansion of domestic demand. The unfavourable labour market conditions will keep on weighing on the development of real disposable income and private consumption will therefore recover only slowly. Aggregate investment is forecast to expand, albeit still at a rather low rate over the forecast horizon. This profile will be mainly driven by the increasing needs to replace depreciated capital as well as the robust foreign-demand growth. Under the assumptions that the oil price stabilizes at USD 111 per barrel and that the euro/dollar exchange rate fluctuates around 1.35, inflation is expected to remain well below 2% (1.5% in Q4 2013 and 1.4% in Q1 2014). The major downside risks to this scenario arise from possible renewed escalations of the debt crisis and from a stronger than expected deceleration in some emerging markets.

A slow GDP recovery

In Q2 2013 Eurozone GDP recorded its first quarter of positive growth (+0.3%) since Q4 2011. This was mainly driven by foreign demand. However, domestic demand also contributed positively to the expansion of economic activity thanks to the pick-up of private consumption in Germany and France as well as an increase in equipment investment.

Business and consumer confidence point towards a further increase in GDP over the forecast horizon (+0.1% in Q3, +0.3% in Q4 2013 and +0.4% in Q1 2014). However, the recovery is likely to be modest, supported mainly by the expected acceleration in demand from major advanced countries (USA, UK and Japan) and China as well as the gradual improvement in domestic demand. The latter will remain weak as it continues suffering from fiscal consolidation as well as some drag from high unemployment and tight credit conditions, associated with the structural rebalancing ongoing in many Eurozone economies.

A correction in industrial production is expected in Q3 after the rebound in Q2 2013 (-0.3% after +0.6%), as indicated by the drop recorded in July. In the following quarters industrial production is forecast to accelerate (+0.7% in Q4 2013 and +0.8% in Q1 2014), as pointed out by business surveys.

Domestic demand remains subdued

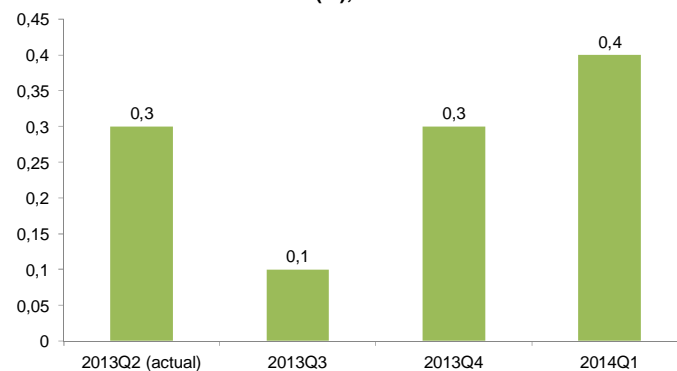
Given the ongoing adjustment to the weak past activity and a subdued recovery lying ahead, labour market conditions are expected to improve only to a limited extent over the forecast horizon. This will put a drag on nominal wage developments. Accordingly, the evolution of purchasing power will remain restrained, even though

Forecasted increase in industrial production compared to previous quarter, Eurozone (%), 2013Q2-2014Q1



Source: Eurostat and Ifo-INSEE-ISAE-ISTAT forecasts

Forecasted GDP growth compared to previous quarter, Eurozone (%), 2013Q2-2014Q1



Source: Eurostat and Ifo-INSEE-ISAE-ISTAT forecasts

the effects of tax increases and cuts in social benefits will gradually diminish and inflation is projected to remain low in the coming quarters. Consumption is forecast to stagnate in Q3 2013 before recovering slightly in the following two quarters (+0.1% in Q4 2013 and +0.2% in Q1 2014).

Equipment investment will continue to recover at a moderate pace, driven by the rebound in external demand and the increasing need to replace depreciated capital. Furthermore, assuming no renewed escalation of the sovereign debt crisis, the financing conditions faced by firms in peripheral countries will likely improve, albeit very slowly. On the other hand, while construction investment is projected to continue falling, the decline should gradually slow down. Total investment is thus forecast to moderately gain momentum over the forecast horizon (+0.1% in Q3, +0.2% in Q4 2013 and +0.4% in Q1 2014).

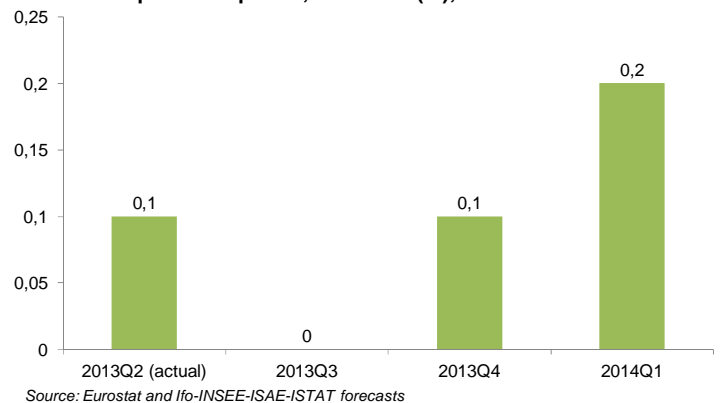
Inflation to stabilize at a low level

After peaking at 2.9% year on year in Q4 2011, headline inflation has fallen to 1.3% in Q3 2013. It is expected to remain relatively stable around over the forecast horizon as nominal wage increases are likely to remain weak and domestic demand is forecast to recover only modestly. Core inflation is also forecast to decrease only marginally, from 1.1% in Q2 2013 to 1.0% in Q1 2014.

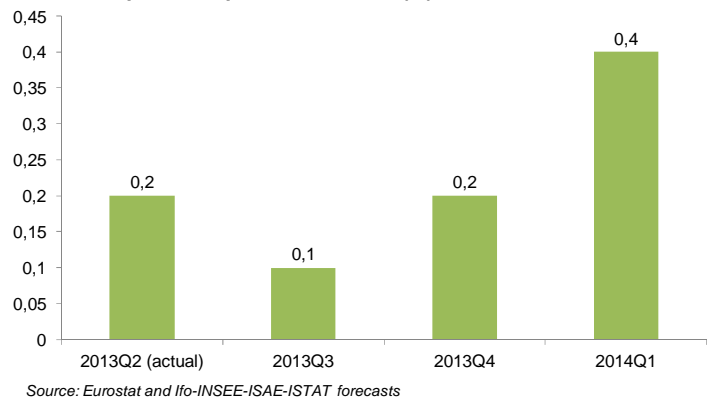
Nevertheless, owing to the recent increase in food prices and the legislative development in Italy on the VAT rate, the inflation rate should slightly increase in Q4 2013 (+1.5%). Under the hypothesis that the Brent oil price stabilizes around USD 111 per barrel while the USD/Euro exchange rate fluctuates around 1.35, inflation should be back to 1.4% in the following quarter.

Source: Euro-zone Economic Outlook. October 7, 2013 (<http://www.cesifo-group.de/ifoHome/facts/Forecasts/Euro-zone-Economic-Outlook/Archive/2013/eeo-20131007.html>)

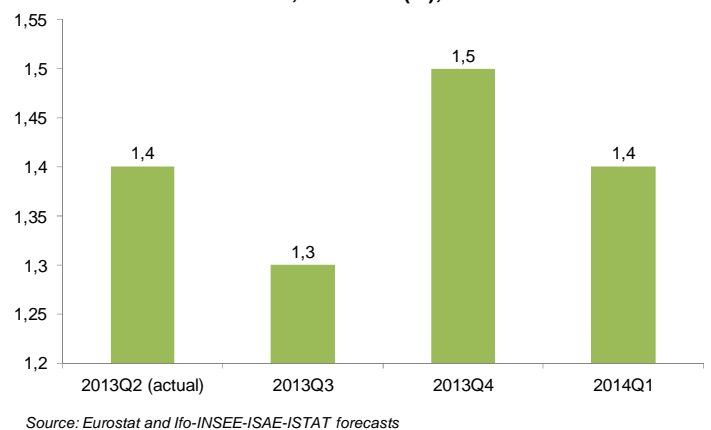
Forecasted increase in consumption compared to previous quarter, Eurozone (%), 2013Q2-2014Q1



Forecasted increase in investment compared to previous quarter, Eurozone (%), 2013Q2-2014Q1



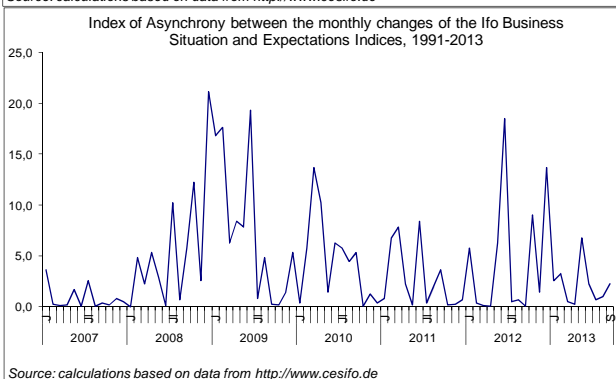
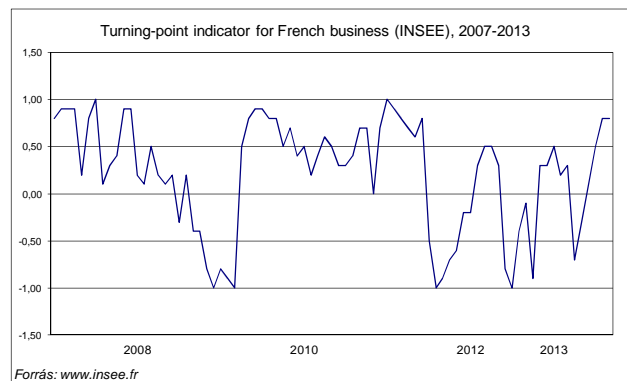
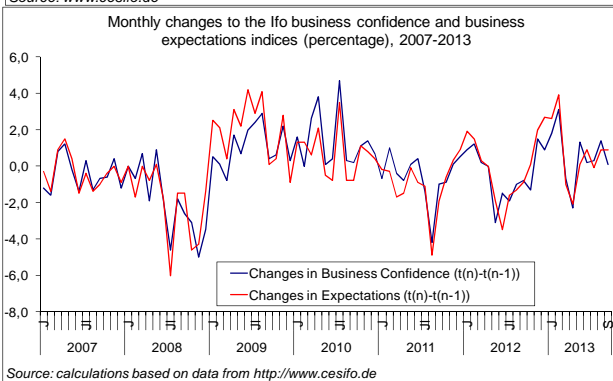
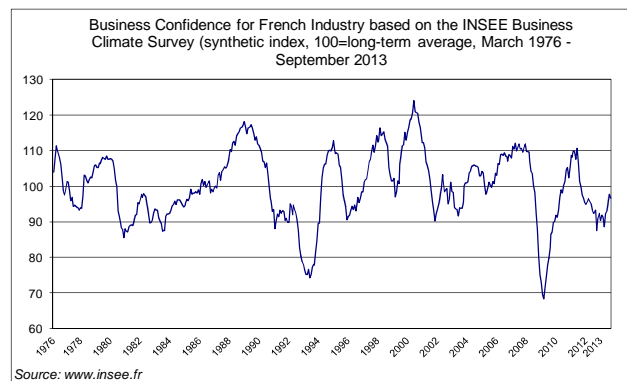
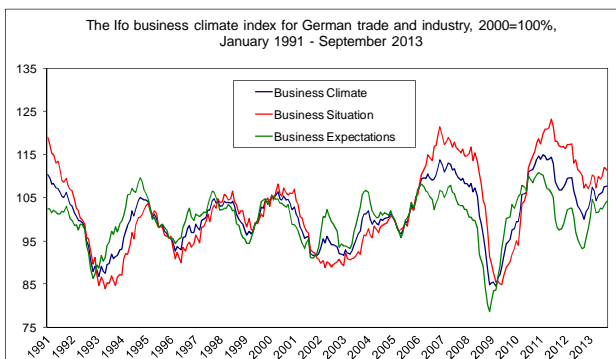
Inflation Forecast, Eurozone (%), 2013Q2-2014Q1



International trends

The Ifo Business Climate Index for German industry and trade again showed an increase in September 2013 for the fifth consecutive month. Although the companies surveyed were slightly less satisfied with their current business situation than in the previous month, expectations for the next six months were again more optimistic. The gap between the current business situation and the expected developments, as calculated by the IEER Index of Asynchrony, increased in September, hence the business confidence index showed greater uncertainty than in the previous month. Ifo analysts see the German economy is still performing well. (Source: Ifo, <http://www.cesifo-group.de>)

Based on a survey by the French statistical office (INSEE), business leaders interviewed in September believe that there was a break in the improvement of the French business climate. The INSEE business confidence index fell one point compared to the August value. The turning point indicator has been in the favorable business climate zone for two months. The individual business forecast index showed strong growth and approached the average value. The overall outlook index – which represents a summary of respondent opinions on French industrial activity as a whole – greatly increased again in September compared to the value of the previous month, thus the index reached its average value. (Source: INSEE, <http://www.insee.fr>)



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