

## Change in the trend?

**According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, tendencies of the Hungarian economy, which started to change in the autumn of 2003, will improve further in 2004. The growth of the economy will slightly accelerate, balances will improve, the expansion of households' income will be further curbed but the rate of inflation will increase.**

In the first quarter of 2003, the growth of industrial production was slow but later accelerated and in the 4th quarter its volume surpassed the level of the same period of the previous year by approximately 10%. Growth rate of exports calculated in euro exceeded 10% in three out of the last four months of the year. In December, it was even above 20%. Hence in 2003, the growth rate of the GDP probably reached 3%. This year, further acceleration: a 3.5% growth rate is expected. At the same time, the structure of the domestic use of GDP will also change: in 2003 consumption and investments increased by 7% and 3%, respectively, this year the investment is likely to grow by 8% while the consumption will increase by 2%. In correlation with the above mentioned, the construction sector will develop faster, while the trade sector slower than in 2003.

In 2003, average number of employed people rose perceptibly in the public sector, while it increased only minimally in the private sector. At the end of the year however, the number of employees already decreased in the public administration, education, health-services compared to December 2002. Gross earnings rose by 9% in the business sector and by almost 18% in the public sector. In the public sector, earnings rose by 20% in the first 8 months of 2003, but the growth rate went down to 7% in the four last months of 2003. In 2003, real earnings were 9.2% higher than in 2002. This year however, real value of wages will increase by only 1%.

In 2003, external balance considerably deteriorated, but the fact that trade and the current account deficit were smaller in Q4 than a year earlier shows that tendencies have changed. This year, mainly in relation with the expected growth of investments, the trade deficit will still increase but the surplus of tourism will partly offset this effect. The deficit, which reached 5.6-5.8% of the GDP in 2003, is expected to decrease below 5.5% this year.

According to the government, general government deficit, calculated with EU methodology, will reach 4.6% of the GDP in 2004, while the deficit calculating only the actual monthly flow of revenues and expenditures is expected to be 5.8%. The government is supposed to take all necessary measures to keep the deficit at or below the above target that is a key element of its credibility.

In the coming months, increase in prices will temporarily accelerate and exceed 7%, but the rate of inflation is expected to be again between 5.5% and 6% at the end of the year.

**Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2004**

	<b>2002 actual</b>	<b>2003 actual</b>	<b>2004 forecast</b>
1. Volume of GDP (%)	103.3	103 <sup>a)</sup>	103.5
2. Industrial production (constant prices, %)	102.6	106.4	109
3. Investment in the national economy (constant prices, %)	105.8	103 <sup>a)</sup>	108
4. Construction (constant prices, %)	120.1	100.7	105
5. Retail trade (constant prices, %)	108.6	108.8	102
6. Exports (current prices in euro, %)	107.4	104.1	107
7. Imports (current prices in euro, %)	106.4	105.8	108
8. Trade deficit (EUR, billion)	3.4	4.3	5.0
9. Current account deficit (EUR, billion)	2.8	4.2	4.2
10. Period average exchange rate of the euro (in HUF)	242.9	253.5	260
11. Deficit of the general government (HUF, billion)	1580	1054	1200
12. Index of average gross earnings	118.3	112.0	108
13. Consumer price index	105.3	104.7	106.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	105.7	105.7
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	5.9

a) estimated

Source of actual data: Central Statistical Office, Ministry of Economy and Transportation, National Bank of Hungary, Ministry of Finance