

April 5, 2004.

Inflation temporarily above 7%

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, data from the beginning of the year also underpin that exports and investment driven economic growth, which started in autumn last year, continue to accelerate and that equilibrium continue to somewhat improve. Expansion of households' income has been curbed; the rate of inflation temporarily rises. Interest rates have started to decline.

In January, exports of the industry increased by 18.7% while domestic industrial sales went down by 3.6%. Production of electric machines and equipments rose by more than 25% due mostly to the exports of communications related products. Production of energy declined by 4% as a result of the warmer temperature. Performance of the food industry (especially the production of tobacco), the manufacture of textiles and that of leather and shoes also decreased. In the high growth of the construction sector, the favorable weather conditions in January also played an important role.

In January, a larger percent of population appeared in the labor market than a year earlier. The number of both employed and unemployed people increased. The rate of unemployment rose by 0.2 percentage points compared with the average of November-January. Young people between the age of 15 and 24 represent 20% of the total number of unemployed people; the unemployment rate in this age group is 13.4%. Employment in the business sector is somewhat higher while in the government sector it is lower than a year earlier. Gross earnings were 8.1%, while net earnings 7% higher than in January 2003. Real earnings were 0.4% higher.

In January 2004, both trade and current account deficits were smaller -similarly to Q4 2003 - than a year earlier. The high level of exports is especially favorable. This year trade deficit will be still on the rise - mostly in relation with the growth in investments - but the increase in tourism surplus may offset the expansion of the trade deficit.

In the coming months, the rate of inflation will remain above 7%, but by the end of the year it is expected to decrease again to about 6%. The acceleration in inflation is mostly due to the rise in VAT and controlled prices (e.g. energy). In addition to the high base, the decline in inflation will be the result of the slowdown of income-growth and the higher competition due the EU accession. This latter will influence mostly food-prices.

The central bank cut the base rate - though only by a symbolic percentage. Further cut in rates is expected while the forint will remain relatively strong.

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

	2002 actual	2003 actual	2004 January	2004 forecast
1. Volume of GDP (%)	103.3	102.9	-	103.7
2. Industrial production (constant prices, %)	102.6	106.4	107.2	110
3. Investment in the national economy (constant prices, %)	105.8	103.0	-	107
4. Construction (constant prices, %)	120.1	100.7	111.4	105
5. Retail trade (constant prices, %)	108.6	108.8	-	102
6. Exports (current prices in euro, %)	107.4	104.1	110.2	108
7. Imports (current prices in euro, %)	106.4	105.8	105.6	108
8. Trade deficit (EUR, billion)	3.4	4.3	0.1	4.6
9. Current account deficit (EUR, billion)	2.8	4.2	0.2	4.2
10. Period average exchange rate of the euro (in HUF)	242.9	253.5	263.8 ^{a)}	258
11. Deficit of the general government (HUF, billion)	1580	1054	341.3	1200
12. Index of average gross earnings	118.3	112.0	108.1	108
13. Consumer price index	105.3	104.7	106.9	106.7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	105.7	107.1	106.0
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	6.0 ^{b)}	5.9

a) January-February

b) Average of December 2003-February 2004

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