

Export and investment oriented growth

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, growth of the Hungarian economy, which started to recover last autumn continue to accelerate driven by exports and investments. The EU accession means the end of a one-and-a-half decade long process and the start of a new period. The accession will extend market economic changes and modernization to areas that lagged behind so far.

Volume of industrial production has already increased by an annual rate of 10% for half a year and in the first two months it was 9.8% higher than in January-February 2003. The growth is due solely to exports, especially in the field of electronic machines and equipment. Domestic sales were almost 3% lower than in the corresponding period of last year. Production of mining (first of all mining of pebble stone and sand) went up by 17%, while the production of energy decreased by 10% as a result of the warmer weather. The acceleration of the growth in the construction sector can also be explained by the colder winter in 2003.

At the beginning of the year, increase in retail trade turnover slowed down, but compared to the growth of households' earnings it is still very dynamic. While real earnings rose by only 0.4% in the first two months, retail trade turnover went up by 7.3%. Gross earnings in the business sector rose by 3.5 percentage points faster than in the government sector.

The year-on-year rate of inflation went down from 7.1% in February to 6.7% in March. In the coming few months, inflation rate might increase but in the second half of the year the rate is definitely expected to decline and reach about 6% by the end of the year. Given the relatively favorable developments in the inflation and the central budget, as well as the strengthening of the forint, interest rates will probably decline further.

According to the new methodology of the current account (namely reinvested profit of foreign companies is added to both the current account deficit and foreign investments), the deficit in the first two months was as large as in the same period of last year. This tendency is expected to prevail in the whole year.

In the first quarter, general government deficit was high but it is in line with the projection of the Ministry of Finance. The deficit target for 2004 seems also realistic.

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

	2002. actual	2003. actual	2004. February	2004. forecast
1. Volume of GDP (%)	103,3	102,9	-	103,7
2. Industrial production (constant prices, %)	102,6	106,4	109,8	110
3. Investment in the national economy (constant prices, %)	105,8	103,1	-	107
4. Construction (constant prices, %)	120,1	100,7	116,6	105
5. Retail trade (constant prices, %)	108,6	108,8	107,3	103
6. Exports (current prices in euro, %)	107,4	104,1	113,1	108
7. Imports (current prices in euro, %)	106,4	105,8	108,4	108
8. Trade deficit (EUR, billion)	3,4	4,3	0,5	4,6
9. Current account deficit (according to new methodology; EUR, billion)	4,9	6,5	1,2	6,5
10. Period average exchange rate of the euro (in HUF)	242,9	253,5	260,4 ^{a)}	253
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1580	1054	435 ^{a)}	1200
12. Index of average gross earnings	118,3	112,0	108,5	108
13. Consumer price index	105,3	104,7	106,8 ^{a)}	106,7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104,8	105,7	106,7 ^{a)}	106,0
15. Rate of unemployment (at the end of the period, %)	5,9	5,5	6,0 ^{b)}	5,9

a) January-March

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