

Inflation reached highest level in May

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, in addition to the still buoyant consumption, exports and business investments are becoming more and more the driving force of the growth of economy. Real earnings that in the past years increased faster than economic performance rose only minimally this year. Certain elements of both internal and external balances have deteriorated but signs of later improvement can already be seen.

After three years, world economic environment as a whole is improving. The war in Iraq, the Middle Eastern situation, the war against terror and even the coming elections in the US increase the uncertainty that have a negative impact on economic processes and first of all directly on oil prices. Prices of raw materials are also increasing.

Industrial production, which grew by 6.4% last year, will increase by approximately 10% this year. Growth-rate of exports will reach at least 15% as a result of significant increase in the production of some multinational companies in Hungary. Mutual supply among Central-Eastern European countries is also gaining ground. In this year, we expect that Hungarian sales to multinationals will slightly strengthen but domestic sales will expand by only 2%. Production of the construction sector is increasing. Business services, especially telecommunication, real estate services, trade and business/consultancy services expand considerably.

Both exports and imports increase dynamically. The growth of consumption barely requires additional imports. Investments in machines, export-growth and increased import-competition will entail faster growth in imports. The perceptibly strengthened forint in real terms might also boost demand for imports. In line with the recovery in Europe, however, export-growth will accelerate. Trade deficit will be higher than last year (□4.6 billion). Under better economic circumstances, Surplus of revenues from tourism declined in the first months of the year - which is not an important part of the year for tourism - but may somewhat increase in better economic circumstances in the rest of the year. Profit repatriation may be higher than in 2003. Current account deficit in euro stagnates and will reach □6.5 billion but its magnitude relative to the GDP will decrease from 9% in 2003 to 8% in 2004.

In May, the rate of inflation will rise again above 7%, but we expect definite decline from the middle of the year. The increase in centrally defined prices and taxes at the beginning of the year are one-off factors and the basis of the index is also increasing. In the first four months, inflation was smaller than earlier expected but in the second half of the year the rate of inflation will decline slower than previously anticipated due to the high oil prices, possibly strengthening US dollar and possibly increasing prices of medicines. Based on the aforesaid, the average inflation rate in 2004 is still expected to be 6.7% while the end of year rate will be between 6% and 6.5%.

The annual average exchange rate of the euro is expected to be HUF253 similarly to 2003 (amid further fluctuation). In all probability, the exchange rate will fluctuate within the band of HUF 247-260.

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

	2002. actual	2003. actual	2004. January- March	2004. forecast
1. Volume of GDP (%)	103.3	102.9	-	103.7
2. Industrial production (constant prices, %)	102.6	106.4	110.8	110
3. Investment in the national economy (constant prices, %)	105.8	103.1	-	107
4. Construction (constant prices, %)	120.1	100.7	119.5	105
5. Retail trade (constant prices, %)	108.6	108.8	106.3	103
6. Exports (current prices in euro, %)	107.4	104.1	113.4	110
7. Imports (current prices in euro, %)	106.4	105.8	110.7	110
8. Trade deficit (EUR, billion)	3.4	4.3	0.8	4.6
9. Current account deficit (according to new methodology; EUR, billion)	4.9	6.5	1.8	6.5
10. Period average exchange rate of the euro (in HUF)	242.9	253.5	257.8 ^{a)}	253
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1580	1054	547.6 ^{a)}	1200
12. Index of average gross earnings	118.3	112.0	109.4	109
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)}	106-106.5
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	6.1 ^{b)}	5.9

a) January-April

b) Average of January 2003 - March 2004

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