

Inflation expected to slow down

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, economic equilibrium will improve and the rate of inflation will moderate in the rest of the year. Investment rises very dynamically this year, while real earnings grow only at a minimal rate.

After three years of slow growth, world economic environment as a whole is slightly improving. Oil prices are still high, but the market seems stabilizing.

Industrial production increases much faster this year, due so far solely to the impressive rise of exports. This dynamic trend is likely to continue as investment in manufacturing expanded by 30% compared to the first quarter of the previous year. Industrial productivity has considerably improved: in the first four months production rose by more than 10% from the corresponding period of the last year, while the number of employees decreased by more than 2%.

Both exports and imports have been increased dynamically at similar rates. In contrast with the previous months, imports rose faster than exports in March and April. This difference was even more significant in April, which is due in part to tactical purchases before the EU-accession. In the first four months of the year trade deficit was somewhat higher than in the corresponding period of 2003 and it will be so in the rest of the year. 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 improving economic environment in the rest of the year. 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 July, general government deficit will considerably increase further, but it will expand only moderately in the second half of the year due mostly to the delayed effect of already adopted austerity measures and to the smaller than planned interest expenditures. The deficit target of the government seems achievable - by implementing further austerity measures if needed.

In May, the rate of inflation reached its peak at 7.6% y-o-y. In the coming months, the inflation is expected to slow down. The average inflation rate in 2004 is expected to be 6.7% while the end of year rate will be between 6% and 6.5%.

In the first four months, real earnings rose by 0.9% (stagnated in the government sector and increased by more than 2% in the business sector). Employment also increased by 0.9%, but in the government sector it decreased. Number of employed in the business sector rose significantly in services, trade and construction, while it decreased in the rest of the sectors including manufacturing. (In the machinery branch however, employment perceptibly increased.)

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

	2002. actual	2003. actual	2004. January-April	2004. forecast
1. Volume of GDP (%)	103.3	102.9	104.2 ^{a)}	103.7
2. Industrial production (constant prices, %)	102.6	106.4	110.4	110
3. Investment in the national economy (constant prices, %)	105.8	103.1	118.9 ^{a)}	107
4. Construction (constant prices, %)	120.1	100.7	116.4	105
5. Retail trade (constant prices, %)	108.6	108.8	106.7	103
6. Exports (current prices in euro, %)	107.4	104.1	113.6	110
7. Imports (current prices in euro, %)	106.4	105.8	112.9	110
8. Trade deficit (EUR, billion)	3.4	4.3	1.5	4.6
9. Current account deficit (according to new methodology; EUR, billion)	4.9	6.5	2.8	6.5
10. Period average exchange rate of the euro (in HUF)	242.9	253.5	256.8 ^{b)}	253
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1580	1054	722 ^{b)}	1200
12. Index of average gross earnings	118.3	112.0	109.1	109
13. Consumer price index	105.3	104.7	107.0 ^{b)}	106.7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	105.7	107.6 ^{b)}	106-106.5
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	5.8 ^{c)}	5.9

a) Quarter 1

b) January-May

c) Average of March-May 2004

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