

GDP growth at least 4%

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, change of the government will only slightly influence economic development this year. GDP growth will exceed 4%, investment will increase dynamically but real earnings will rise to only a minimal extent. Equilibrium will improve in the second half of the year.

Economic development is driven by exports and investments. The growth rate is expected to exceed the EU average by 2 percentage points this year again. In the first half of the year, industrial production and exports grew by 10% and 20%, respectively. Domestic sales on average stagnated but increased in the sectors producing consumer goods and products for further manufacturing. Export-growth of telecommunication equipments, office machines and vehicles is outstanding. As investments in manufacturing rose by 25% in the first half, growth in this sector will probably remain dynamic.

Fast growth rate of the construction sector in the first half is due in part to the low basis in last year. Based on the high stock of orders, mostly in highway construction, a stable dynamic growth is expected.

Growth of retail trade has slowed down compared to 2003, but it is still fast. Due to the expansion of construction and renovation of dwellings, turnover of retail trade of furniture and household goods (which also includes construction materials) has increased the most. In the first six months, sales of motor vehicles increased very dynamically: by 13%. Retail trade turnover including the sales of motor vehicles and fuels grew by 7.8% in the first 6 months, which is much faster than the modest increase (0,3%) in real earnings. In the first half of the year, gross earnings rose by 10.1% in the business sector and by 6.1% in the government sector compared with the corresponding period of the previous year. Employment increased by 0.8%, but it declined in the government sector. Number of employed increased mostly in the service, trade and construction sectors. Number of employed decreased in manufacturing, which reflects the fast increase in productivity.

In the first half of the year, imports grew faster than exports. This was due partly to the replenishment of stock of materials and components necessary for exports and to the increased imports of consumer goods (especially motor vehicles, cars). In the whole year, growth rate of imports and exports is expected to be equal.

Inflation has passed its zenith, but its moderation is slower than previously expected because of the higher oil and food prices. The average inflation rate is expected to be 6.9%, while the y-o-y inflation rate will be 6.5% at the end of the year. The general government deficit to GDP ratio may reach 4.8%, a bit higher than the target of the government (4.6%) if no further measures are implemented.

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

| | 2002. actual | 2003. actual | January-June 2004. | 2004. forecast |
|---|-------------------------|-------------------------|-------------------------------|---------------------------|
| 1. Volume of GDP (%) | 103.3 | 102.9 | 104.1 | 104.1 |
| 2. Industrial production (constant prices, %) | 102.6 | 106.4 | 110.4 | 110 |
| 3. Investment in the national economy (constant prices, %) | 105.8 | 103.1 | 113.5 | 110 |
| 4. Construction (constant prices, %) | 120.1 | 100.7 | 107.6 | 105 |
| 5. Retail trade (constant prices, %) | 108.6 | 108.8 | 106.8 | 104 |
| 6. Exports (current prices in euro, %) | 107.4 | 104.1 | 112.5 | 113 |
| 7. Imports (current prices in euro, %) | 106.4 | 105.8 | 113 | 113 |
| 8. Trade deficit (EUR, billion) | 3.4 | 4.3 | 2.5 | 4.6 |
| 9. Current account deficit (according to new methodology; EUR, billion) | 4.9 | 6.5 | 2.8 ^{a)} | 6.5 |
| 10. Average exchange rate of the euro (in HUF) | 242.9 | 253.5 | 255.3 ^{b)} | 253 |
| 11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion) | 1580 | 1054 | 1072 ^{b)} | 1250 |
| 12. Index of average gross earnings | 118.3 | 112.0 | 108.6 | 109 |
| 13. Consumer price index | 105.3 | 104.7 | 107.1 ^{b)} | 106.9 |
| 14. Consumer price index at the end of the period (corresponding month of the previous year=100) | 104.8 | 105.7 | 107.2 ^{b)} | 106.5 |
| 15. Rate of unemployment (at the end of the period, %) | 5.9 | 5.5 | 5.9 ^{c)} | 5.9 |

a) January-April

b) January-July

c) Average of May-July 2004

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