

## The Forint Is Strong

**According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, economic growth will reach 4% this year. Investment is increasing dynamically; real earnings are rising to a minimal extent. In the second half of the year, the rate of inflation will decrease and equilibrium will improve.**

Economic development is driven by exports and investments but in the first half of the year consumption also rose significantly. In the first seven months of the year, industrial production and exports grew by almost 10% and 20%, respectively. Domestic sales, however, have not reached last year's level yet.

While the performance of the industry in July fell behind the high average growth rate to date, growth in construction sector has accelerated again due mainly to investment in the transport sector. Weather conditions have been very favorable for agriculture this year. Twice as much cereal was harvested this year than in 2003 due solely to higher yields. There was no such good harvest in the last 10 years. Performance of animal husbandry, however, lags behind the results of the last year.

Both the number of employed persons and gross earnings are increasing faster in the business sector than in the government sector. In the first seven months of the year, gross earnings rose by 10% in the business sector and by 7% in the government sector compared to the corresponding period of the previous year. Hence, real earnings has risen in the business sector while somewhat decreased in the government sector. Overall employment increased by 1%, but it declined by the same rate in the government sector. Number of employed decreased in manufacturing, which reflects a fast increase in productivity.

Growth rate of imports and exports are similar and fast. Because of the high oil price, terms of trade are deteriorating and due the delayed increase in natural gas price, this effect will continue next year, too. Current account deficit will increase slightly further this year, but as a percent of GDP it will decrease. Long-term financial sources will play a larger part in financing the current account deficit.

According to the announcement of the Ministry of Finance, the deficit of general government/GDP ratio will be 5-5.3%, i.e. higher than the previous target of 4.6%. GKI Co. believes that the actual figure will be around the lower end of the forecast.

Inflation has passed its zenith, but its moderation is slower than previously expected because of the higher oil and food prices. The average annual inflation rate is expected to be 6.9%, while the rate at the end of the year will be 6.5%.

Forint has been strong for months and interest rates are high. Further reduction of the base rate of the central bank is expected before the end of the year.

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

	<b>2002. actual</b>	<b>2003. actual</b>	<b>2004. January-July</b>	<b>2004. forecast</b>
1. Volume of GDP (%)	103.5	102.9	104.1 <sup>a)</sup>	104
2. Industrial production (constant prices, %)	102.8	106.4	109.5	110
3. Investment in the national economy (constant prices, %)	107.8	103.1	113.5 <sup>a)</sup>	110
4. Construction (constant prices, %)	117.8	102.0	108.0	105
5. Retail trade (constant prices, %)	108.7	109.0	106.9	104
6. Exports (current prices in euro, %)	107.4	104.4	114.0	113
7. Imports (current prices in euro, %)	106.4	105.9	113.8	113
8. Trade deficit (□, bn.)	3.4	4.2	3.0	4.6
9. Current account deficit (according to new methodology; □, bn.)	4.9	6.5	2.8 <sup>b)</sup>	6.5
10. Average exchange rate of the euro (in HUF)	242.9	253.5	254.5 <sup>c)</sup>	253
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1569	1054	1166 <sup>c)</sup>	1250
12. Index of average gross earnings	118.3	112.0	108.6	109
13. Consumer price index	105.3	104.7	107.1 <sup>c)</sup>	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 <sup>c)</sup>	106.5
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	5.9 <sup>d)</sup>	5.9

a) 1st half

b) January-April

c) January-August

d) Average of May-July 2004

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