

Industrial growth and inflation slowing down

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the Hungarian economy continues to grow but at a slightly slower rate. The rate of inflation has been noticeably moderating. Economic equilibrium will improve.

Growth rate of the Hungarian economy is still higher (by 2 percentage points) than that of the EU; however it is one of the slowest among the new member states. Production of the Hungarian industry increased by only about 5% in July-August after a growth of 10% in the 1st half of the year. The slowdown is in line with the trends in Europe; growth rate of the industry has decreased for three months in EU-25. This trend prevails mostly in old member states, but the situation is similar in numerous new member states. At the same time, the strong national currency (forint) has probably also contributed to the slowdown of the export-oriented production of the Hungarian industry. The high basis of comparison, as recovery started in last summer, has also had an impact on the above tendency. At the same time, it is encouraging that the stock of orders in manufacturing is high and productivity is increasing fast. Energy consumption is below last year's level, though this is due in part to the weather.

Construction is also growing fast, though at a decelerating pace. Stock of orders (especially orders for highway construction) is 50% higher than last year. In the first eight months of the year the procurement of agricultural products was 10% lower than in 2003. The impact of high yields in grain production will have its impact only in the last four months of the year and next year.

Growth rate of retail trade turnover is high (above 6%), but a bit of slowdown is seen. Especially the growth of car-sales has decreased - to about 2% after increasing by a two-digit rate in the first half of the year. Taking into account real wage stagnation, this tendency is understandable. Moreover, it is amazing how reluctant households are to reduce their consumption. At the end of June, consumption loans were 25% higher year-on-year and its dynamics has barely decreased over this year. In the first 8 months of this year, 40% of new consumption loans were denominated in foreign currencies, since forint interest rates are high while exchange rate risk is relatively low.

In September, growth rate of prices has noticeably decreased to 6.6%. It is 1 percentage point lower than the record high in May, and 0.5 percentage point lower than in August. As a result of decreasing inflation, strong forint and improving general government balance, the central bank will probably cut rates further in the rest of the year. The base rate of the central bank may reach 9.5% at the end of the year.

Exports (calculated in euro) are increasing faster than imports. Due mostly to the high prices of oil and other raw materials, terms of trade deteriorated by about 1% in the first 8 months. The trade deficit will be about the same as last year, but its rate compared to GDP will decrease. Capital inflow will play a more significant role in financing the trade deficit than in 2003.

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

	2002. actual	2003. actual	2004. January- August	2004. forecast
1. Volume of GDP (%)	103.5	103.0	104.1 ^{a)}	104
2. Industrial production (constant prices, %)	102.8	106.4	109.2	109
3. Investment in the national economy (constant prices, %)	108.0	103.4	113.5 ^{a)}	110
4. Construction (constant prices, %)	117.8	102.0	107.6	106
5. Retail trade (constant prices, %)	108.7	109.0	106.8	104
6. Exports (current prices in euro, %)	107.4	104.4	114.4	113
7. Imports (current prices in euro, %)	106.4	105.9	114.0	113
8. Trade deficit (euro, bn.)	3.4	4.2	3.3	4.6
9. Current account & capital flow deficit (according to new methodology; euro bn.)	4.9	6.6	3.8 ^{a)}	6.6
10. Average exchange rate of euro (in HUF)	242.9	253.5	253.3 ^{b)}	252
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1569	1054	1284 ^{b)}	1300
12. Index of average gross earnings	118.3	112.0	108.0	109
13. Consumer price index	105.3	104.7	107.0 ^{b)}	106.9
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	105.7	106.6 ^{b)}	106.3
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	6.1 ^{c)}	6.1

a) H1

b) January-September

c) Average of July-September 2004

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