

No increase in real earnings this year

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the Hungarian economy continues to grow but its pace in the second half of the year will be somewhat lower than in the first half because of the slow European growth, stagnating real earnings, strong forint and high interest rates.

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. After a growth rate of 10% in the 1st half of the year, production of the Hungarian industry increased by less than 6% in the 3rd quarter. Industrial exports have significantly slowed down from 20% in the 1st half of the year to 13% in the 3rd quarter, though it is still deemed fast. Decrease in domestic sales has become more perceptible; it was 0.5% over 9 months. The highest export growth was recorded in the manufacture of consumer durables and the 2nd highest in the manufacture of semifinished products. These two sectors were the most successful in the domestic market, too. In the whole year, the industry is expected to grow by 8-9%. Despite the above-mentioned problems, the high stock of orders and the fast increase in import of machines for investment purposes support industrial growth further.

Construction is also growing fast, though at a decelerating pace. At the end of September, stock of orders (especially orders for highway construction) was 80% higher than last year.

In the first 3 quarters, the number of employed in the national economy increased by 1%. It rose by 1.5% in the business sector. The number of employed in the industry however decreased by more than 2%, and significant increase took place only in machinery industry. On the other hand, the number of employed considerably increased by 4, 9 and 12% in the construction, trade and real estate sectors, respectively. In the government sector the number of employed decreased by 1%. Taking also into account the part-time employees, data show smaller growth rates and larger decline.

The situation in the labor market is in correlation with the wages: in the first 9 months gross earnings in the business and government sectors rose by 9.5 and 5% respectively. Net earnings increased by 8 and 5%, respectively, which means that real earnings rose by 1% in the business sector, decreased by 2% in the government sector but stagnated altogether. In October, increase in prices has perceptibly moderated; the price index is expected to be around 6% in December. As a result of decreasing inflation, strong forint, improving position of the general government, the central bank is expected to cut rates further in the rest of the year. The base rate is expected to go down to around 9.5% by the end of the year.

Growth rate of imports and exports (calculated in euro) are the same. Due mostly to the high prices of oil and other raw materials, terms of trade deteriorated by about 1%; but the effect of high oil price is largely counterbalanced by the weak dollar. External deficit will be about the same as last year, but its ratio to GDP will decrease. Capital inflow will play a more significant role in financing the deficit than earlier.

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

	2002. actual	2003. actual	2004. January- September	2004. forecast
1. Volume of GDP (%)	103.5	103.0	104.1 ^{a)}	104
2. Industrial production (constant prices, %)	102.8	106.4	108.9	108.5
3. Investment in the national economy (constant prices, %)	108.0	103.4	113.5 ^{a)}	110
4. Construction (constant prices, %)	117.8	102.0	106.4	106
5. Retail trade (constant prices, %)	108.7	109.0	106.6	104
6. Exports (current prices in euro, %)	107.4	104.4	115.1	114
7. Imports (current prices in euro, %)	106.4	105.9	115.1	114
8. Trade deficit (□, bn.)	3.4	4.2	3.7	4.6
9. Current account & capital flow deficit (according to new methodology; □, bn.)	4.9	6.6	3.8 ^{a)}	6.6
10. Average exchange rate of euro (in HUF)	242.9	253.5	253.1 ^{b)}	252
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1569	1054	1328.6 ^{b)}	1350
12. Index of average gross earnings	118.3	112.0	107.9	108
13. Consumer price index	105.3	104.7	107.0 ^{b)}	106.8
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104.8	105.7	106.3 ^{b)}	106
15. Rate of unemployment (at the end of the period, %)	5.9	5.5	6.1 ^{c)}	6.1

a) H1

b) January-October

c) Average of August-October 2004

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