

Economy has slightly lost momentum

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the Hungarian economy in 2004 grows by 4%, i.e. 1 percentage point faster than in 2003. By autumn-winter, however, it has become evident that growth has lost some momentum in the 3rd quarter.

The slower than expected economic growth in the eurozone, especially in Germany plays a major role in the slowdown of the Hungarian economy. The trend in the EU is in strong relation to the weak dollar (strong euro) and the persistently high oil price. In Hungary, the strengthened forint compared even with the euro, which hinders both exports and domestic sales, the stagnation of households' consumption, which is actually good for the equilibrium, and high interest rates also contribute to the slowdown. All these factors slightly deteriorate the growth outlook for 2005.

In the autumn, growth pace of prices has perceptibly slowed further down. The annual average price increase is expected to be 6.8%, while the y-o-y price increase in December will be 5.8%

After the nomination of the new minister of finance at the beginning of 2004, the official target for the general government deficit (by EU methodology) was modified to 4.6% of the GDP. The forecast of the Ministry of Finance since September has been 5-5.3%. GKI Co. expects a deficit of about 5.2%. VAT revenues cause the highest uncertainty in the forecast though company profit tax transfer in December is also hard to predict.

This year, general government deficit will decrease by 1 percentage point. It is a significant step in the consolidation of the budget but smaller than planned. The deficit can be regarded still high mostly because of the size of the current account deficit. Due to the dynamic GDP growth, strong forint and revenues from privatization, the debt of the general government will be 59% of the GDP at the end of December, which is a minimal increase compared to 2003. External debt will be similar to last year's figure, but it will decrease as a percentage of GDP. FDI plays a larger role in financing the debt than earlier.

As a result of high interest rates, very slow cut in the base rate of the central bank, which followed the market with big lags and generated speculation by its calculable measures, the Hungarian forint has appreciated extremely in the autumn of 2004. The base rate of 9.5% at the end of 2004 is still extremely high in international comparison and significantly higher than what the country risk would justify.

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

	2002. actual	2003. actual	2004. January- October	2004. forecast
1. Volume of GDP (%)	103,5	103,0	104,1 ^{a)}	104
2. Industrial production (constant prices, %)	102,8	106,4	108,5	108,5
3. Investment in the national economy (constant prices, %)	108,0	103,4	113,2 ^{a)}	110
4. Construction (constant prices, %)	117,8	102,0	106,3 ^{a)}	106
5. Retail trade (constant prices, %)	108,7	109,0	106,6 ^{a)}	104
6. Exports (current prices in euro, %)	107,4	104,4	113,9	113
7. Imports (current prices in euro, %)	106,4	105,9	113,6	113
8. Trade deficit (eur, bn.)	3,4	4,2	4,0	4,6
9. Combined deficit of the current account & capital account (eur, bn.)	4,9	6,6	3,8 ^{b)}	6,6
10. Average exchange rate of euro (in HUF)	242,9	253,5	252,4 ^{c)}	252
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1569	1054	1435,1 ^{c)}	1350
12. Index of average gross earnings	118,3	112,0	107,6	107,5
13. Consumer price index	105,3	104,7	106,9 ^{c)}	106,8
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	104,8	105,7	105,8 ^{c)}	105,8
15. Rate of unemployment (at the end of the period, %)	5,9	5,5	6,1 ^{d)}	6,1

a) Q1-3

b) H1

c) January-November 2004

d) Average of August-October 2004

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