January 31. 2005.

Inflation keep on decreasing

In 2005, according to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the growth-rate will be around 4% (similar to last year's), the inflation will decrease perceptibly and the equilibrium will slightly improve.

In 2004, the growth of the Hungarian economy was definitely export and investment driven. This year, the growth rate of both exports and investments will slightly moderate, while that of consumption will somewhat increase. The uncertain outlook of the European growth is the main risk factor for the development of the business sector. After improving in the first half of the year, growth of the global economy halted but strengthened again at the end of the year.

Despite the slightly decreasing real earnings, consumption in 2004 rose by 3%. The reason is that households were reluctant to cancel their purchasing plans formed during the past years when their income rose considerably, and they did not fear of future and indebtedness. This year, real earnings will rise by 3%, and accordingly consumption will rise by 3.5%.

The rate of inflation went down to 5.5 at the end of 2004. It will fall below 5% in January despite the fact that the price of household energy and medicines and traffic tariffs will increase in the first months of the year. This year the annual average inflation rate will be 4.5%, the end of year rate will be 4.3%. This process will justify a significant cut in the base rate of the national bank.

General government deficit was 1284 billion forints in 2004. The balance in December was favorable, nevertheless, the estimated annual figure is around 5.3% of the GDP using the EU methodology. As the one-time drop in VAT revenues in the wake of the EU accession will not be repeated in 2005, the cash-flow deficit in 2005 will be smaller than in 2004. The deficit according to EU methodology will be around 4.9% of the GDP. This is smaller than in 2004 but higher than the figure approved by the parliament.

Imports will probably grow faster than exports, as domestic demand expands and import-competition strengthens. Since the price of natural gas follows the oil price with a lag, terms of trade will deteriorate further. Surplus in tourism will, however, hopefully improve. Consequently, the external position will not change. Trade and current account deficits will increase in nominal terms, but their share in the GDP will keep on decreasing and will be reduced below 8%. About half of the deficit will be financed by FDI.

Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2005

	2003. (actual)	2004. January - November (actual)	2004. (estimated)	2005 (forecast)
1. Volume of GDP (%)	103.0	104.1 [a]	104	104
2. Industrial production (constant prices, %)	106.4	108.7	108.5	108
3. Investment in the national economy (constant prices, %)	103.4	113.2 [a]	110	108
4. Construction (constant prices, %)	102.0	107.0	107	108
5. Retail trade (constant prices, %)	109.0	106.2	106	103.5
6. Exports (current prices in euro, %)	104.4	115.0	113	110
7. Imports (current prices in euro, %)	105.9	114.3	113	111
8. Trade deficit (□, bn.)	4.2	4.1	4.6	5.5
9. Combined deficit of the current account & capital account (□, bn.)	6.6	5.1 [a]	6.6	6.9
10. Average exchange rate of euro (in HUF)	253.5	251.9 [b]	251.9 [b]	250
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1054	1284.1 [b]	1284.1 [b]	1060
12. Index of average gross earnings	112.0	107.3	107.5	106.5
13. Consumer price index	104.7	106.8 [b]	106.8 [b]	104.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105.7	105.5 [b]	105.5 [b]	104.3
15. Rate of unemployment (at the end of the period, %)	5.5	6.3 [c]	6.3 [c]	6.3

a) QI-III
b) Actual figure for the whole year
c) Average of October-December 2004
Source of actual data: Central Statistical Office, Ministry of Economy and Transportation, National Bank of Hungary, Ministry of Finance