

Real earnings to rise

In 2005, according to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the growth rate of the economy will be around 4% (similar to last year's), the inflation will decrease perceptibly and real earning will rise again.

In 2004, the growth of the Hungarian economy was definitely export and investment driven; trade deficit was smaller than in 2003. This year, the growth rate of both exports and investments may slightly decrease due to the still uncertain growth in Europe.

Last year, real earnings rose by more than 1% in the business sector and decreased by 5% in the government sector. This latter is due in part to the fact that the 13th month salary was paid only in January 2005 instead of December 2004. In the whole economy real earnings declined by 1%. Despite this trend, retail trade turnover rose dynamically: by 5.7% in 2004, which is due to purchases planned earlier and partly to new dwellings. In the 4th quarter however, turnover rose by only 3.4%. This year we expect a similar increase in retail trade, which will correspond to a 3-3.5% increase in real earnings.

The rate of inflation has dropped from 5.5% at the end of 2004 to 4.1% in January 2005. In light of this 1.4 percentage point decrease in the inflation rate, the rate-cut of the central bank of 0.75 percentage point can not be regarded as excessive. During the whole year similar increases in prices are expected: the price index is anticipated to fall below 4% in February and increase slightly in the second half of the year. One reason is that energy prices that were increased at the beginning of the year in 2004, this year will be raised later. The second reason is that food prices, which declined due to the good harvest last year, may rise this year.

At the end of the year, base rate of the central bank will decrease to at least 7%, whilst the forint will remain relatively strong, though a bit weaker than presently.

Trade deficit was smaller in 2004 than in the previous year, which indicates strong export capability of the economy. After increasing by more than 10% in the first half of 2004, growth of the industrial production perceptibly slowed down in the 3rd quarter and accelerated again in the 4th quarter. In 2005 a similar increase is expected that is due - like in the previous years - almost exclusively to the increase in exports. Terms of trade will deteriorate further because of the delayed increase of the natural gas price. Surplus in tourism will hopefully increase; hence the external balance will not change substantially. Although the nominal deficit of trade and current account will increase (the latter to □6.9 billion together with the capital balance) but their proportion to the GDP will decrease below 8%. Half of this deficit will be financed by FDI.

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

	2003. (actual)	2004. (estimated)	2005 (forecast)
1. Volume of GDP (%)	103.0	104	104
2. Industrial production (constant prices, %)	106.4	108.3*	108
3. Investment in the national economy (constant prices, %)	103.4	110	108
4. Construction (constant prices, %)	102.0	106.8*	108
5. Retail trade (constant prices, %)	109.0	105.7*	103.5
6. Exports (current prices in euro, %)	104.4	115.3*	113
7. Imports (current prices in euro, %)	105.9	113.2*	114
8. Trade deficit (□, bn.)	4.2	3.9*	4.8
9. Combined deficit of the current account & capital account (□, bn.)	6.6	6.6	6.9
10. Average exchange rate of euro (in HUF)	253.5	251.9*	250
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1054	1284.1*	1060
12. Index of average gross earnings	112.0	106.1*	106.5
13. Consumer price index	104.7	106.8*	104.0
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105.7	105.5*	104
15. Rate of unemployment (at the end of the period, %)	5.5	6.3	6.3

* actual, preliminary data

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