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Both unemployment and real earnings on the 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 3.8%, which is similar to the second half of last year. The rate of inflation will not decrease in the rest of the year compared to February; real earnings will dynamically rise.

In 2005, growth of the Hungarian economy is expected to remain export and investment driven; but consumption is also expected to expand fast. Demand in export markets will however expand slower than last year and the growth rate of the EU will decrease from 2.2% to 1.9%. In Hungary, business expectations also deteriorate.

In January, industrial production grew slower than last year and even slower than the growth rate recorded in December, which has been the lowest in 2004. Hungarian exports increased slower while imports rose faster than last year. In the whole year, production and export growth are expected to accelerate. The construction sector had good performance already in January and its stock of orders is also high.

At the beginning of the year, number of employed stagnated: it rose in the business sector and decreased in the government sector. Number of unemployed increased by 15%; the unemployment rate has risen from 6% to 6.9%. This rate is smaller than in the EU (9%) but among young people unemployment rate has reached the EU level of 18%.

In the retail trade sector, slowdown, which started last year, continued to prevail. Sales of food-trade decreased compared to January 2004, while sales of other products went up by 6.6%. Income of households spectacularly increased which is due to the payment of the 13th-month-salary in the government sector (in former years it took place in December). Regular gross average earnings (excluding e.g. bonuses) in the business and government sectors rose by 7.2% and 6.3, respectively. Real earnings are expected to increase by about 4.5% in the whole year.

In both January and February, the rate of inflation has moderated from 5.5% in December to 4.1% and 3.2%, respectively. Inflation is expected to somewhat increase in the rest of the year but it will remain below 4% both during the whole year and at the end of the year. In March, Forint stopped appreciating because foreign investors have withdrawn their capital from the whole region; the Hungarian currency is still strong. The forint is likely to remain strong in the long run as the business and government sectors and households also borrow in FX, which generate steady demand for the forint. The base rate of the national banks has decreased to 7.75% at the end of March. Considering the interest rate of the European Central Bank (2%) and the very favorable development of the inflation and the strong forint, there is still room for further rate cuts.

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

	2003.	2004.	2005. January	2005. (forecast)
1. Volume of GDP (%)	103,0	104,0	-	103,8
2. Industrial production (constant prices, %)	106,4	108,3	102,7	108
3. Investment in the national economy (constant prices, %)	103,4	108,3	-	110
4. Construction (constant prices, %)	102,0	106,8	107,9	109
5. Retail trade (constant prices, %)	109,0	105,7	103,2	103,5
6. Exports (current prices in euro, %)	104,4	115,3	111,6	113
7. Imports (current prices in euro, %)	105,9	113,2	115,0	113
8. Trade deficit (□, bn.)	4,2	3,9	0,2	4,4
9. Combined deficit of the current account & capital account (□, bn.)	6,4	6,8	-	6,9
10. Average exchange rate of euro (in HUF)	253,5	251,9	245,2*	246
11. Deficit of the general government (on cash flow basis, without local governments; HUF, billion)	1054	1284,1	393,9*	1060
12. Index of average gross earnings	112,0	106,1	127,7	108
13. Consumer price index	104,7	106,8	103,6*	103,6
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105,7	105,5	103,2*	103,8
15. Rate of unemployment (at the end of the period, %)	5,5	6,3	6,9**	6,3

* January-February

** December 2004 - February 2005

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