

As European outlook deteriorates, the same happens in Hungary

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the slowdown of the European and especially of the German economic growth may have a stronger negative effect on the Hungarian economy than it was presumed earlier. Unemployment and real earnings are on the rise.

The slowdown of the European growth (German GDP is expected to grow only by 0.7% instead of the earlier forecasted 1.5% or of the last year's 1.7%) will affect the Hungarian economy as well. In the first two months of the year industrial production increased by less than 2% in contrast with the more than 8% growth in 2004. Out of this the expansion of the industrial exports dropped from 15.7% to 3.4% but domestic sales - after last year's stagnation - increased by 1.4%. The latter is a result of expanding sales of investment goods. In contrast to the industry, the construction sector is soaring. Although the winter months are not representative for the annual performance, the very high stock of orders - especially in the motorway construction - makes outstanding development of the sector most probable this year.

At the beginning of the year the number of people employed practically stagnated; it increased in the business sector and decreased in the government sector. The rate of unemployment increased in one year by 1 percentage point to 7.1%. This is 2 percentage points lower than the EU average, but the rate among young people is 19%, which is equal to the average of this group in the member states. This is due to several factors, like the abolishment of the compulsory military service, seasonal factors, slowdown of the economic growth, structural differences between the supply and demand of the workforce.

In the retail trade the slowdown that started last year has continued, sales of food stagnate, sales of other products have expanded by 5%. Especially fast was the increase of sales of furniture, books, stationary and pharmaceuticals. There was a slight decline in the sales of cars and a small increase in the sales of fuel.

Increase of household income was spectacular in the first two months of the year, but this was partly the result of the disbursement in January of the 13th month salary in the government sector (in the previous years this usually took place mainly in December). In January-February the regular (i.e. without bonuses and similar payments) gross average income in the business and government sectors were close to each other (7% and 7.6% respectively). Annual growth of real income is expected to be at least 5%.

Inflation moderated markedly in both January and February from the 5.5% in December to 4.1% and 3.2% respectively, but somewhat increased - in accordance with the expectations - in March to 3.5%. The annual average inflation is expected to be around 3.6%. The strengthening of the forint stopped in March because certain investors withdrew part of their investments from the Eastern European region. Nevertheless, the Hungarian currency remained very strong. The central bank base rate was reduced to 7.5% at the end of April. Given the 2% benchmark rate of the European Central Bank and the favorable development of inflation in Hungary, there is room for further rate cuts.

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

	2003	2004	Jan.-Febr. 2005	2005 (forecast)
1. Volume of GDP (%)	103.0	104.0	-	103.5
2. Industrial production (constant prices. %)	106.4	108.3	101.8	107
3. Investment in the national economy (constant prices. %)	103.4	108.3	-	110
4. Construction (constant prices. %)	102.0	106.8	117.69	109
5. Retail trade (volume index. %)	109.0	105.7	102.5	103.5
6. Exports (current prices in euro. %)	104.4	115.3	109.8	113
7. Imports (current prices in euro. %)	105.9	113.2	115.0	113
8. Trade deficit (□ bn.)	4.2	3.9	0.5	4.4
9. Combined deficit of the current & capital accounts (□ bn.)	6.4	6.8	-	6.9
10. Average exchange rate of euro (in forints)	253.5	251.9	245.2*	246
11. Deficit of the general government (on cash flow basis. without local governments; billion forints)	1054	1284.1	484.9*	1060
12. Index of average gross earnings	112.0	106.1	117.5	109
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	103.5*	103.8
15. Rate of unemployment (at the end of the period. %)	5.5	6.3	7.1*	6.3

* January-March

Source of actual data: Central Statistical Office. National Bank of Hungary. Ministry of Finance