

Improving external balance, increasing unemployment

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, in 2005 the growth of the Hungarian economy will be somewhat faster than in the first quarter, but slower than last year. Inflation will not decline further this year. Real earnings will grow dynamically, while the savings of households will also increase faster than earlier. External balance will improve.

After a slowdown in the first quarter the Hungarian economy started to grow more dynamically. In April the industrial production increased by 9%, the output of the construction sector by 20% compared to the corresponding period of the previous year. Within the industry the growth was especially fast in the production of electronic and transport equipment. On the other hand the output of textile and food industry decreased considerably. Within the construction sector the growth was due mainly to activities related to motorway construction.

In the first four months of the year the exports of the industry were 5.1% more, its domestic sales 3.2% more than a year earlier. Within the exports the consumer goods, within the domestic sales the capital goods and the intermediate products played the main role. The difference between the growth rate of the exports and domestic sales is smaller than usual. Within the total foreign trade of goods the expansion of exports was faster considerably, by almost 7 percentage points than that of the imports. This was due partly to the slowing of economic activity, partly to the slackening of retail trade - among others to the decline in the sales of cars in the first four months of the year.

At the beginning of the year the number of people employed in the national economy basically stagnated; increased in the business sector, decreased in the public sector. The rate of unemployment increased by 1.4 percentage points in a year to 7.2%; it has been stagnating for months, while the seasonality should have led to some decline. Some reduction is probable in the rest of the year, but even so the 6.8% expected for the last quarter will be higher than the 6.3% of the last year. Nevertheless, it is still better than the EU average. In April the average gross earnings were by 6.4% higher than a year earlier in the business sector and by 6.9% in the public sector. In the year as a whole a 7% growth is expected in the business sector and a 9.5-10% in the public sector. (This later would have been 8% without the delayed payment of the last years 13th month salary). This year the average real earnings will increase by 5%.

After the strong decrease at the beginning of the year inflation stagnates with certain fluctuation. The annual average price increase is expected to be around 3.8%. The forint, which was very strong in March temporarily weakened by about 5%, but strengthened again significantly in June. The base rate of the central bank was reduced to 7% in June, a further 0.5% cut is expected during the rest of the year.

The combined deficit of the current and capital accounts somewhat improved, especially significant was the decrease of the trade deficit. The inflow of foreign direct investments increased, but so did the outflow of Hungarian investments

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

	2003	2004	Jan.-April 2005	2005 (forecast)
1. Volume of GDP (%)	102.9	104.2	102.9*	103.5
2. Industrial production (constant prices %)	106.4	108.3	103.6	105
3. Investment in the national economy (constant prices %)	102.5	107.9	106.8*	106
4. Construction (constant prices %)	102.0	106.8	114.4	109
5. Retail trade (volume index %)	109.0	105.7	104.3	103.5
6. Exports (current prices in euro %)	104.4	115.3	111.8	112
7. Imports (current prices in euro %)	105.9	113.2	105.0	111
8. Trade deficit (□ bn.)	4.2	3.9	1.0	4.0
9. Combined deficit of the current & capital accounts (□ bn.)	6.4	6.8	1.3*	6.9
10. Average exchange rate of euro (in forints)	253.5	251.9	247.1**	247
11. Deficit of the general government (on cash flow basis without local governments; billion forints)	1054	1284.1	837.7**	1160
12. Index of average gross earnings	112.0	106.1	111.9	108
13. Consumer price index	104.7	106.8	103.6**	103.8
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105.7	105.5	103.6**	103.9
15. Rate of unemployment (at the end of the period %)	5.5	6.3	7.2***	6.8

* First quarter

** January-May

***March-May

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