

## External balance is improving

**According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank the Hungarian economy - after a slowdown in the first half of 2005 - is growing more dynamically. In spite of the continuous decrease of the interest rates the forint is persistently strong. The increase of the gross earnings is slowing down; nevertheless, real earnings are growing fast. The external balance is significantly improving.**

The Hungarian industry - after the less than 2% increase in the first quarter - expanded its production by more than 8% in the second quarter. This is - after the Baltic states - by far the fastest growth in the European Union, the industry of which grew by less than 0.5% in both quarters. In the first six months of the year the exports of the industry was by 9.6%, its domestic sales by 3.2% higher than a year earlier. Especially fast was the growth in the production of telecommunication equipment, construction materials and motor vehicles. At the same time the production of food-, textile- and shoe industry decreased. The growth was due basically to two regions: Middle Transdanubia and Northern Hungary, while the most significant decline occurred in Southern Transdanubia.

The construction industry - first of all due to the motorway construction - expands very dynamically. In the first half of the year the number of dwellings put to use increased by 11%, while the number of construction permits decreased by 10% compared to the first half of 2004. The retail trade turnover after a 3.3% growth in the first quarter, increased by 6.2% in the second quarter. In June the growth of earnings slowed down both in the private and public sectors. The growth of real income in the first half of the year was nearly 5% in the business sector and it was similar in the public sector if we do not take into account the deferred payment of the 13th month's salary of 2004.

Since several months the exports have been growing faster than the imports The trade deficit probably will be only three fourth of the last years amount. Notwithstanding, the impact of this improvement on the balance of payments will be mostly neutralized by the outflow of interest and profit income. Nevertheless, most of this profit will be reinvested and the inflow of fresh capital will expand as well. Probably the total of foreign direct investment will considerably surpass the last year's □ 3 billion.

This year the inflation will not decrease further, but in 2006 it may be around 2.5%. The forint is persistently strong. During the rest of the year a further approximately 0.5% cut is expected in the central bank base rate, which will be below 6% by the end of the year.

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

	<b>2003</b>	<b>2004</b>	<b>Jan.-June 2005</b>	<b>2005 (forecast)</b>
1. Volume of GDP (%)	102,9	104,2	102,9*	103,5
2. Industrial production (constant prices %)	106,4	108,3	105,9	106
3. Investment in the national economy (constant prices %)	102,5	107,9	106,8*	106
4. Construction (constant prices %)	102,0	106,8	113,8	109
5. Retail trade (volume index %)	109,0	105,7	104,8	104
6. Exports (current prices in euro %)	104,4	115,3	111,4	112
7. Imports (current prices in euro %)	105,9	113,2	105,4	109
8. Trade deficit (□ bn.)	4,2	3,9	1,2	3,0
9. Combined deficit of the current & capital accounts (□ bn.)	6,4	6,8	1,3*	6,5
10. Average exchange rate of euro (in forints)	253,5	251,9	247,3**	247
11. Deficit of the general government (on cash flow basis without local governments; billion forints)	1054	1284,1	936,4**	1160
12. Index of average gross earnings	112,0	106,1	110,9	108
13. Consumer price index	104,7	106,8	103,7**	103,8
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105,7	105,5	103,7**	103,9
15. Rate of unemployment (at the end of the period %)	5,5	6,3	7,1***	6,8

\* First quarter

\*\* January-July

\*\*\*May-July

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