

Economy picks up

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the revival of the economy that started in the second quarter of 2005 goes on. Real earnings are growing fast. External balance is improving. Substantial reduction of general government deficit, which is needed to the introduction of the euro in 2010, will be on the agenda after the 2006 elections.

The revival of the economy continued during the summer months. The GDP in Hungary expanded by 2.5 percentage points faster than the EU average but among the Central European countries it left behind only Poland. In July-August the expansion of the production accelerated in almost all branches of the economy.

In the industry exports increased by 10, domestic sales by 4% in the first eight months of the year. In August the fastest growth was recorded in the production of motor vehicles, but the production of the office machines, computers and telecommunication equipment increased dynamically too. The production of non-metallic minerals increased due to the highway construction program. On the other hand, the production of the food industry continued to shrink. The construction of buildings increased by 10%, the civil engineering - including roads - by 20% in the first eight months. Within the retail trade the expansion of food sales was much less than the average (2.5%) but the sales of non-food products increased by 6.4% in the January-August period. The sales of cars declined somewhat in the first eight months after the fast growth of the preceding years, but picked up in the summer months.

The trade deficit shrinks from the last year's □ 4 bn. to 3 bn., because exports expand faster than imports. This is partly explained by the fact that in 2004 on the eve of EU membership the expansion of imports was - for tactical reasons - faster than that of the exports. The difference in the pace of growth is decreasing accordingly: in August the growth of imports was 16.5% - almost the same as that of the exports.

Unemployment increased by 1.2 percentage points to 7.3% in a twelve-month period, nevertheless, it is still better than the unemployment rate of the EU member states. It will remain rather stable, because the abolition of the compulsory military service influenced mainly the situation of those unskilled young people who live in small villages where the job opportunities have been scarce anyway. This can be seen from the fact that the unemployment rate in the 15-24 year age group increased from 16.3% to 19.7% in the last one-year period. Gross income increased in the private sector by 7%. The increase in the public sector was stronger even if we don't calculate the payment of the last year's 13th month wage in January 2005. Real income will rise by 6% this year (it moderately declined last year and will increase by an annual average 2.5% in 2004-2005).

Last year inflation accelerated suddenly - as a result of tax increases. In the spring of this year it started to decline fast and will remain around 3.7% until the end of the year. The deficit of the general government calculated according to the EU methodology was 5.4% of GDP in 2004 and will be around 6% this year. The magnitude of the cash-flow deficit will depend largely on the timing of the Budapest Airport transaction.

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

	2003	2004	Jan-Aug 2005	2005 (forecast)
1. Volume of GDP (%)	103,5	104,6	103,5*	103,9
2. Industrial production (constant prices %)	106,4	108,3	106,7	107
3. Investment in the national economy (constant prices %)	102,5	107,9	108,3*	110
4. Construction (constant prices %)	102,0	106,8	114,4	113
5. Retail trade (volume index %)	109,0	105,7	104,9	104,5
6. Exports (current prices in euro %)	104,4	115,3	110,2	112
7. Imports (current prices in euro %)	105,9	113,2	105,8	109
8. Trade deficit (□ bn.)	4,2	3,9	1,9	3,0
9. Combined deficit of the current & capital accounts (□ bn.)	6,4	6,9	2,9*	6,5
10. Average exchange rate of euro (in forints)	253,5	251,9	246,8**	248
11. Deficit of the general government (on cash flow basis without local governments; billion forints)	1054	1284,1	1062**	1100-1400
12. Index of average gross earnings	112,0	106,1	110,0	109
13. Consumer price index	104,7	106,8	103,7**	103,7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105,7	105,5	103,7**	103,7
15. Rate of unemployment (at the end of the period, %)	5,5	6,3	7,3***	7,2

* First half

** January-September

*** July-September

Sources of actual data: Central Statistical Office, National Bank of Hungary, Ministry of Finance