

Inflation is abating

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 increasing fast - as a result of the dynamic increase of wages and salaries and the decelerating inflation. In November the forint weakened a little. Given the expected increase in the euro interest rates the forint interest rates will not decrease further this year.

In the summer-autumn months the resurgence of the economy continued. After a mere 2% growth in the first quarter, the industrial production increased by almost 10% both in the 2nd and 3rd quarters. In the first nine months the export was up by 11%, the domestic sales by 4% compared to the corresponding period of the previous year. The latter is much more than in any of the recent years; only the domestic sales of consumer goods did not grow. Among the regions of the country the industrial production increased first of all in Middle Transdanubia and Northern Hungary but decreased in Southern Transdanubia. The book of orders of the manufacturing industry increased by one third in September. The output of the construction industry, which expanded very fast in 2005 was 37% higher in September than a year earlier. In addition to the motorway construction - which expanded dynamically during the whole year - the highway reconstruction, civil engineering, construction of industrial, commercial and health care buildings increased significantly.

Trade deficit in the first three quarters shrunk to □ 2.1 bn. from the □ 3.2 bn. of last year. In September the exports increased again faster than the imports. In the first eight months the exports to the old member states of the EU increased by a mere 1.4%, while to the new ones by 40%. Imports from the old member states declined by 3%, but from the new ones increased by 15%. Imports from the Asian countries increased much faster than the exports to them.

Unemployment - although is much lower than the EU average (especially the 15-17% of Slovakia and Poland) - increased in one year by 1.2 percentage points to 7.3%. The number of people employed in the competitive sector increased a little, but in the public sector it decreased by 1.3%. Gross earnings in the first three quarters increased by 7% in the competitive sector and somewhat faster in the public sector, even without computing the deferred payment of the last year's 13th month salary in January. This year real wages will grow by at least 6% (it decreased a little last year and in 2004-2005 it will grow by an average of 3%).

After a temporary rise last year - caused by tax increase - inflation is declining fast. Its annual average will be 3.6%, the rate at the end of the year will be 3.2%. Further cut in the central bank base rate this year is quite unlikely given the expected increase in the euro interest rates, the weakening of the forint, the high general government deficit and the pre-election political rhetoric that shakes the investors confidence.

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

	2003	2004	Jan-Sept 2005	2005 (forecast)
1. Volume of GDP (%)	103,5	104,6	103,5*	104
2. Industrial production (constant prices %)	106,4	108,3	106,9	107
3. Investment in the national economy (constant prices %)	102,5	107,9	108,3*	110
4. Construction (constant prices %)	102,0	106,8	117,4	115
5. Retail trade (volume index %)	109,0	105,7	105,4	105,5
6. Exports (current prices in euro %)	104,4	115,3	110,5	112
7. Imports (current prices in euro %)	105,9	113,2	106,2	109
8. Trade deficit (□ bn.)	4,2	3,9	2,1	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	247,3**	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	109,7	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	103,2**	103,2
15. Rate of unemployment (at the end of the period, %)	5,5	6,3	7,3***	7,2

* First half of th year

** January-October

*** August-October

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