

The growth of the economy accelerates

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the upward trend in the Hungarian economy that started in the Q2 2005 continues in parallel with the European recovery. External balance is improving, the inflow of foreign capital is dynamic, but the deficit of the general government is high. The weakening of the forint in the third quarter was not significant but no interest rate cut is expected before the elections.

In October the expansion of the industrial production remained fast: after the 2% in the second quarter, the output was - like in the second and third quarters - nearly 10% higher than a year earlier. In the first ten months of the year the exports of the industry increased by 11.3% its domestic sales by 4.4% compared to the corresponding period of the previous year. The expansion of domestic sales is much stronger than in the previous years and it even accelerated during the year. In the first ten months the production per persons employed in the industry was 10.5% higher than a year earlier, while the number of employed persons decreased by 3%. The construction industry continues soaring. Retail trade turnover - especially of non-foods - expands dynamically, except the car sales, which is increasing slowly.

In 2005 real earnings expected to grow by 6.2% in the Hungarian economy, which means a close to 3% average growth in 2004-2005. The significant increase of real wages leads to expansion of both the consumption and the savings. However, the consumption follows the earnings with certain delay; therefore, while in 2004 the shrinking real earnings were accompanied by 3.1% growth of consumption, in 2005 the more than 6% expansion of real earnings will lead to maximum 3% increase in consumption. After the 2.3% growth in the first three quarters, a much faster growth would be needed in the fourth quarter even for this 3% annual growth, but this is quite possible given the improving consumer expectations and the low basis in 2004. Investments will grow by approx. 10%. After the 8.5% in Q1-Q3, a spectacular growth is expected in the Q4 - especially if we take into account the stagnation in Q4 2004.

In the first ten months the trade deficit dropped from the last year's 3.5 bn. to 2.4 bn. The improvement is partly a result of the high level of imports in the first half of 2004 in connection with the EU accession. This phenomenon is characteristic for most of the new member states, but considering the high energy prices and the resulting approximately 2% loss in the terms of trade this is a good result. In October the exports continued to increase faster than the imports.

Inflation is abating; its annual average will be 3.6%, its value at the end of the year 3.2%. The exchange rate of the forint became more volatile in the fourth quarter, but continues to be strong. Nevertheless, given the high deficit of the general government and the pre-election rhetoric - that undermines the confidence of the investors - further cuts in the central bank base rate is unlikely.

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

	2003	2004	Jan-Oct. 2005	2005 (forecast)
1. Volume of GDP (%)	103,5	104,6	104,1*	104,2
2. Industrial production (constant prices %)	106,4	108,3	107,2	107
3. Investment in the national economy (constant prices %)	102,5	107,9	108,5*	110
4. Construction (constant prices %)	102,0	106,8	116,9	115
5. Retail trade (volume index %)	109,0	105,7	105,6	105,5
6. Exports (current prices in euro %)	104,4	115,3	110,7	112
7. Imports (current prices in euro %)	105,9	113,2	106,9	109
8. Trade deficit (□ bn.)	4,2	3,9	2,4	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	247,6***	248
11. Deficit of the general government (on cash flow basis without local governments; billion forints)	1054	1284,1	1197***	1000
12. Index of average gross earnings	112,0	106,1	109,4	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	103,3***	103,2
15. Rate of unemployment (at the end of the period, %)	5,5	6,3	7,3****	7,2

* January-September

** First half of the year

*** August-November

**** August-October

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