

## **Gyurcsány-package to bring results from the autumn**

**According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, confidence of financial investors will gradually strengthen if the reform plans of the government become clear, the convergence program is presented to the EU at the end of August, the balance of general government starts to improve in the autumn, an austere budget is approved for 2007. Nevertheless, a marked improvement in the assessment of Hungary's situation may be expected only in 2007, in the wake of several months of spectacular decline of the deficit.**

In May the industrial production - after an interruption in April - expanded again fast. In the first five months of the year the exports increased by 15, the domestic sales by 5.5%. Especially fast was the growth of the car and machine industry production. At the same time, the output of the construction industry declined by 8.5% in May (more than in April). As a result, the output in the first five months basically stagnated - although compared to a very high basis. The development of the foreign trade got a new impetus and the exports continued to expand faster than the imports. The trade deficit in the first five months was less than a year earlier. The growth of the economy will be around 4.4% this year, but next year it will slow down to approximately 3.5% - as a result of the fiscal adjustment.

The confidence in the fiscal and monetary policy - the trustworthiness of which had been diminishing for years - declined further in June, but stabilized in July. This stabilization was due to the adoption of the fiscal adjustment measures by the parliament, to the rise of the base rate of the central bank and the slight improvement in the international financial situation. The exchange rate of the forint reacts very sensitively to domestic and foreign news, nevertheless, it stopped weakening; moreover, its trend started to strengthen. The deficit of the general government is expected to be around 8% of GDP this year.

After a fast decline in the first months of the year, the inflation will be between 2.5-3% in the summer, then it will rise sharply in the autumn and will reach 5% by December. The annual average price rise of food products will be around 7%, while the price of consumer durables will decrease by 3-4%. In the first five months of the year the gross earnings increased by 7.3%. The increase in the competitive sector was 8%, although the agreement in the National Reconciliation Council was only 4-5% for 2006. The salary increase in the public sector is only around 6.5%, but it accelerated compared to the first quarter. The minimum wage increased by almost 10%. In the year as a whole - despite the fiscal adjustment - approximately 3% average real-earnings increase is expected. The rate of increase, which was around 5% in the first half of the year, will slow down to 1-2% in the second half. This will occur as a result of the increase in the wage-related social security contributions and of the accelerating inflation.

Following an almost two-year-long continuous increase, unemployment has been decreasing since March. Unemployment among young people is still very high but declining. The number of people employed is somewhat higher than a year ago or in the previous months.

## Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2006

	2004.	2005.	2006. Jan.- May	2006. (forecast)
1. Volume of GDP (%)	105.2	104.1	104.6*	104.4
2. Industrial production (constant prices %)	107.4	107.3	110.3	110
3. Investment in the national economy (constant prices %)	107.9	106.4	109.7*	107
4. Construction (constant prices %)	106.8	116.6	100.5	106
5. Investment in the national economy (constant prices %)	105.8	105.8	105.5	104.5
6. Exports (current prices in euro %)	115.3	111.4	116.8	114
7. Imports (current prices in euro %)	113.2	108.3	115.4	113
8. Trade deficit (□ bn.)	3.9	2.8	1.0	2.8
9. Combined deficit of the current & capital accounts (□ bn.)	6.7	5.7	1.3*	5.7
10. Average exchange rate of euro (in forints)	251.7	248.0	260.5**	265
11. Deficit of the general government (cash flow basis without local governments; bn. forints)	1284.1	984.4	1318**	1850
12. Index of average gross earnings	106.1	108.8	107.3	106.3
13. Consumer price index	106.8	103.6	102.6**	103.3
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105.5	103.3	102.8**	105
15. Rate of unemployment (at the end of the period, %)	6.3	7.3	7.2***	7.5

\* Q1, 2006

\*\* H1, 2006

\*\*\* Q2, 2006

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