

Inflationary hump is expected

According to the forecast made by GKI Economic Research Co. in co-operation with Erste Bank, Hungary's GDP growth is likely to moderate slightly, inflation is expected to accelerate somewhat and the further expansion of inflated general government deficit sets to decelerate in the course of 2006. Confidence of investors and thereby the exchange rate of the forint to the euro will gradually strengthen. Nevertheless, the pronounced improvement in Hungary's evaluation and rating should be reckoned with only in 2007 as a result of the spectacular decrease of general government deficit in several successive months.

The development of the Hungarian economy decelerated modestly in the second half of 2006. The rate of growth of GDP, industrial production and retail trade turnover alike moderated slightly. Output of construction actually fell. The drop was related partly to the rather high base figure, partly to the delay of invoicing in some government investments. In the course of the whole year, no significant slowdown is probable, since no deceleration of GDP growth in Europe is projected and in Hungary, the decline of the rate of growth in the purchasing power of households and thereby private consumption is likely to affect imports rather than domestic production. With the decrease of wages and salaries as well as the number of employees in the public sector, GDP produced by public services is projected to decrease sharply in 2007.

Industrial production was buoyant in June. In the first half of 2006, exports of industry was up by 14 per cent, domestic sales by 5 per cent. Dynamism was particularly high in the manufacture of vehicles, electric machinery and instruments. The stock of orders in general, within it that of new orders in particular are rather high. In the first half of 2006, industrial production diminished by nearly 8 per cent in Southern Transdanubia, whereas it grew by 18 per cent in Northern Hungary. In retail trade, turnover of hyper- and supermarkets mounted most sharply. In June, dynamic growth in the retail sales of personal cars came to a halt, whereas sales of gasoline grew by 10 per cent in spite of the high price.

The rate of consumer price inflation was the lowest in March and April totalling 2.3 per cent, and it has increased since then. In July, food prices were up by 6.4 per cent year on year, the rate of increase is higher than the average. Dispersion is rather significant. The price of seasonal food items grew by 29 per cent, that of sugar and eggs by 12 per cent, pork and dried pasta by 7-8 per cent year on year. On the other hand, the price level of consumer durables fell by 5 per cent, that of clothing by 1 per cent, household energy by 0.1 per cent. With the increase of energy prices in August and VAT rates in September, consumer price inflation may reach 5.8 per cent in December compared to the same month of the previous year and 3.7 per cent year on year. The peak in the rate of inflation is expected in early summer of 2007, followed by a quick fall after that.

In the first half of 2006, gross earnings grew by 7.2 per cent, net earnings by 8.1 per cent, real earnings by 5.4 per cent. In the course of the year, the deceleration in the rate of growth of gross earnings as well as the actual decrease of net earnings compared to the first quarter is expected. (Nevertheless, the level of net earnings will still be higher than in the previous year.) In spite of the consolidation measures in general government, average real earnings are likely to increase by 2.5 per cent in the national economy in 2006.

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

	2004	2005	2006 Jan.- June	2006 (projection)
1. Volume of GDP (%)	105,2	104,1	104,1	104
2. Industrial production (at constant prices %)	107,4	107,3	110,0	110
3. Investments in the national economy (at constant prices %)	107,9	106,4	101,8	107
4. Construction (at constant prices %)	106,8	116,6	98,3	106
5. Retail trade turnover (at constant prices)	105,8	105,8	105,3	104,5
6. Exports (at current prices in EUR %)	115,3	111,4	115,8	114
7. Imports (at current prices in EUR %)	113,2	108,3	114,7	113
8. Foreign trade deficit (EUR bn)	3,9	2,8	1,1	2,8
9. Combined deficit of the current & capital accounts (EUR bn)	6,7	5,7	1,3*	5,7
10. Average exchange rate of euro (in HUF)	251,7	248,0	262,9**	265
11. Deficit of the general government (cash flow basis without local governments; HUF bn)	1284,1	984,4	1252**	1850
12. Index of average gross earnings	106,1	108,8	107,2	106,3
13. Consumer price index	106,8	103,6	102,6**	103,7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105,5	103,3	103,0**	105,8
15. Rate of unemployment (at the end of the period, in %)	6,3	7,3	7,3***	7,5

* First quarter

** January-July

*** May-July 2006

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