

Economy follows its own track

According to the forecast made by GKI Economic Research Co. in cooperation with Erste Bank, the austere 2007 budget and the reforms in the offing, which will hurt the interest of various groups of the population will lead to social tensions but the economic development will remain stable. The confidence of the investors will improve and the forint will strengthen gradually. Nevertheless, any marked improvement in the assessment of the situation in Hungary will occur not sooner than next year.

The growth of the Hungarian economy slowed a little in the second quarter, but accelerated a bit in July. Industrial production expanded to the same extent as in the first quarter, the production of motor vehicles in July increased by almost one third compared to the same period of the previous year. The volume of orders and particularly of the new orders is high. In the first seven months the industrial production declined by 5.5% in Southern Transdanubia but increased by 18% in Northern Hungary. The recorded output of the construction industry - after several months of decline - modestly increased in July. Retail trade turnover slowed down further, sales of new cars continued to decline. Sale of automotive fuels is expanding by 10% p.a. in spite of the high price.

Inflation bottomed out in March and April at 2.3%; since then it has been accelerating: in August it was already 3.5%. As a result of the energy price increase in August and the VAT increase in September the inflation may reach 5.8% in December and 3.7% on annual average. Inflation will reach its highest point in early summer 2007 and will drop sharply after that.

In the first seven months of the year gross earnings increased by 7.4%, net earnings by 8.2%, real earnings by 5.5%. Within this the increase was by one percentage point higher in the business sector. In the rest of the year the increase of the gross earnings will slow down, the net earnings will decrease compared to the first half of the year, but will be higher than in 2005. In the year as a whole - as a result of the fiscal adjustment - only an approximately 2.5% average real income growth is probable.

This year the number of people employed stagnates; it increases a little in the business sector and decreases in the public sector. Unemployment decreased in the second quarter, but later started to increase again. Further increase is expected by the end of the year - due partly to seasonality, partly to the reorganization of the government sector.

The combined deficit of the current and capital accounts in the first half of the year was □400 million higher than a year earlier, but this is due mainly to the fact that most of the EU transfers will arrive only in the second half of the year. The trade balance of goods improved, that of the services deteriorated - but within this the balance of tourism improved - the net outflow of income accelerated.

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

	2004	2005	2006 Jan.- July	2006 (forecast)
1. Volume of GDP (%)	105,2	104,1	104,1*	104
2. Industrial production (at constant prices %)	107,4	107,3	110,5	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	98,7	106
5. Retail trade turnover (at constant prices)	105,8	105,8	105,1	104,5
6. Exports (at current prices in EUR %)	115,3	111,4	116,2	114
7. Imports (at current prices in EUR %)	113,2	108,3	114,7	113
8. Trade deficit (EUR bn)	3,9	2,8	1,4	2,8
9. Combined deficit of the current & capital accounts (EUR bn)	6,7	5,3	2,9*	5,3
10. Average exchange rate of euro (in HUF)	251,7	248,0	264,3**	266
11. Deficit of the general government (cash flow basis without local governments; HUF bn)	1284,1	984,4	1386,9**	1850
12. Index of average gross earnings	106,1	108,8	107,4	106,3
13. Consumer price index	106,8	103,6	102,7**	103,7
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105,5	103,3	103,5**	105,8
15. Rate of unemployment (at the end of the period, in %)	6,3	7,3	7,4***	7,5

* H1

** January--Aug.

*** June-Aug. 2006

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