

Real earnings drop to 2005 level

According to the forecast made by GKI Economic Research Co. in cooperation with the Erste Bank the growth rate slows down but the external and internal equilibrium improves in 2007. Inflation will accelerate to around 8% in the first half of the year but will be around 4% by the end of the second half. Real earnings will decrease by 3.5% on average.

The growth rate of the Hungarian economy is determined primarily not by the dynamics of the domestic consumption and investment, but by the European business cycle and the resulting difference between the dynamics of the exports and imports. This is why the fiscal adjustment and the reform program have only a limited slackening effect on the growth of the Hungarian economy. In 2007 the GDP will grow by at least 3%. A fast growth of around 8% is expected in the industry. The output of the construction industry and the large part of business services will grow by 4% or more. Agricultural production will expand moderately. Barely more than stagnation is expected in the trade sector and the performance of the public services will decline. Employment in the public sector will decrease by 3-4%, but the total employment in the national economy will decrease only slightly, unemployment will reach 7.8-8%.

The wage policy of the business sector probably will be the same as in 2006. The gross earnings will continue to grow by approx. 7%. Net earnings will grow by 3 percentage points slower on annual average because of the increase in the health insurance contributions and decrease of tax deductions. The change (increase) of the VAT rate and the solidarity tax have differentiated effect. As a final result the real earnings in the business sector will decrease only by 1-2%.

In the government sector the total amount of wages and salaries do not increase but the per capita gross earnings of employees will grow by 2%. As a result the annual net earnings of many employees in the government sector will decrease. The decline of real wages will be around 6-8%, in some cases 10%. All in all, the real earnings in the national economy will decrease by 3.5% dropping to the 2005 level. The real value of pensions will remain basically unchanged, but the purchasing power of the pension of those pensioners who get indexation will decrease because of the declining real wages. Real value of adjusted pensions will grow by 3.5%. In spite of the 2% decrease in real income the consumption of households is not expected to decline. Net savings will increase because of the slowdown of new borrowing: it will be around 5.5% of GDP.

In 2007 the deficit of the general government will be around 6%, i.e. less than the planned 6.8% of GDP due to the better than expected starting equilibrium of the economy, higher tax revenues, expenditure reducing measures and interest rate decline in the second half of the year. The gross government debt will barely surpass the 70% of GDP because of the smaller than planned in the convergence program 2006-2007 general government deficit, the strengthening forint and the privatization revenues.

Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2007

	2004	2005	2006 Jan-Nov	2006 (estimated)	2007 (forecast)
1. Volume of GDP (%)	105.2	104.2	104.1*	104.1	103.0
2. Industrial production (constant prices. %)	107.4	107.3	110.3	110	108
3. Investment in the national economy (constant prices. %)	107.9	105.6	99.6*	102	104
4. Construction (constant prices %)	106.8	116.6	ápr.98	100	104
5. Retail trade (volume index %)	105.8	105.8	104.5	104	101.5
6. Exports (current prices in euro %)	115.3	111.4	115.7	115	113
7. Imports (current prices in euro %)	113.2	108.3	113.4	113	110
8. Trade deficit (□ bn.)	09.márc	08.febr	01.febr	03.febr	01.jan
9. Combined deficit of the current & capital accounts (□ bn.)	07.jún	03.máj	3.7*	5	05.ápr
10. Average exchange rate of euro (in forints)	251.7	248.0	264.3**	264.3**	252
11. Deficit of the general government (cash flow basis without local governments; bn. forints)	1284.1	984.4	2034**	2034**	1450
12. Index of average gross earnings	106.1	108.8	107.7	107.3	105
13. Consumer price index	106.8	103.6	103.9**	103.9**	106
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	105.5	103.3	106.5**	106.5**	104
15. Rate of unemployment (at the end of the period. %)	03.jún	03.júl	7.5**	7.5**	8

* Q1-Q3

** Annual fact (preliminary)

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