

Growth set to accelerate next year

According to the forecast prepared by GKI Economic Research Co. in co-operation with Erste Bank the economic growth will accelerate considerably in 2008 from the slow level of 2007, which was caused by extraordinary circumstances. Nevertheless, the expansion of the economy will be modest compared with the achievements of the neighboring countries. The internal and external equilibrium will continue to improve and real earnings will slightly increase.

In fact a substantial part of the upswing will be nothing else than the automatic correction of the sharp decline in the agricultural production in 2007. After the 10-15% drop in 2007, even an average year would mean 10% growth in 2008. The GDP produced in the public services will continue to decrease but to lesser extent than in 2007. The combined output of the so called „core“ sectors (i.e. of the economy without the agriculture and the public services) will grow by more than 3% in 2007 and close to 5% in 2008. Because of the moderate slowdown of the European economy the growth of the industrial production will be somewhat slower than in 2007: around 8%; but even so, the industrial exports will be the main driving force of the economy. The output of the construction sector will be substantially above the 2007 level. The fast growth will continue in the domestic tourism, in the transit transport and in the business services. The retail trade will expand – although minimally. All in all, the GDP will grow by approximately 3.5%.

The exports will continue to grow dynamically. The growth rate of the imports will be close to that of the exports, due first of all to the upswing in the investments and some increase of consumption. The trade deficit will basically stagnate. The foreign trade of services will expand, with modestly growing surplus. Significant deficit is expected in the balance of income. Thus, the deficit of the current account will remain unchanged: around five billion euros. A part of those EU funds, which are at our disposal from 2007 will be used in 2008, while further sums will be disbursed from the funds appropriated earlier. Thus, the external financing requirement of the economy will be reduced to 3.2 billion euros, i.e. to 2.9% of GDP.

In spite of increasing world market prices of energy carriers, raw materials and food, inflation will significantly abate in 2008 because there will be no further price increasing effect of the fiscal consolidation measures. Next year food prices will continue to increase at a rate close to 10% (but it will go down to around 6.5% by the end of the year). The price of energy carriers for the households will go up 7-8%. The price of consumer durables will decrease, those of clothing will stagnate. Fuel prices will rise only moderately from the already high 2007 level. The price of the services will increase somewhat slower than the wages but faster than the average. Thus, inflation – which is expected to be around 7% by the end of this year – will go down to 4% by the end of 2008 resulting in 5% annual average; but the uncertainty of this forecast is higher than usual, because of the influence of world market developments.

The nominal growth of personal income will slow down in 2008, its „whitening“ will continue. The gross earnings in the competitive sector will grow by 7.5%, in the public sector by 6.5-7%. Thus, real wages in the economy as a whole will grow by 1%, but within this in the public sector by barely more than 0.5%, in the competitive sector by 1.5%. If we take into account the decrease of the tax evasion – which takes place first of all due to the regulation that non emergency health services will be provided only if health insurance premiums are paid – the actual increase of real earnings in the business sector will be only 0.5-1%, i.e. almost the same as in the public sector (like in 2007).

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

	2005	2006	Jan.-Oct. 2007	2007 estimated	2008 forecast
1. Volume of GDP (%)	104.1	103.9	101.6*	101.7	103.5
2. Industrial production (constant prices, %)	107.3	110.1	108.6	108.5	108
3. Investment in the national economy (constant prices, %)	105.3	97.9	99.2*	100	108
4. Construction (constant prices, %)	116.6	98.4	88.5*	90	110
5. Retail trade (volume index, %)	105.8	104.4	97.3	98	101.5
6. Exports (current prices in euro %)	111.4	116.6	117.5	118	116
7. Imports (current prices in euro %)	108.3	113.9	113.1	114	114
8. Trade deficit (billion euros)	2.9	2.0	0.4	0.6	0.7
9. Combined deficit of the current & capital accounts (billion euros)	5.3	5.2	2.8**	4.1	3.2
10. Average exchange rate of euro (in forints)	248.0	264.3	251***	251.3	250
11. Deficit of the general government (cash flow basis without local governments; billion forints)	984.4	2034	1340***	1350	1200
12. Index of average gross earnings	108.8	108.1	108.2	108.5	107
13. Consumer price index	103.6	103.9	108.0***	108.0	105
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.3	106.5	107.1***	107.2	104
15. Rate of unemployment (at the end of the period %)	7.3	7.5	7.3****	7.4	7.4

* Q1-3 2007

** H1 2007

*** January-November 2007

**** August-October 2007

Sources of actual data: CSO, NBH, MoF