

Economy to grow from the second half of the year

According to the forecast prepared by GKI Economic Research Co. in co-operation with Erste Bank the Hungarian economy will bottom out from the last year's "hole" in 2008. Nevertheless, the growth will be minimal in the first half and especially in the first quarter of the year. Inflation will abate slowly, but the internal and external equilibrium will improve significantly and real earnings will modestly increase.

After the last year's massive slowdown, the economic growth will accelerate perceptibly; but even so, its speed will be much lower than in the rest of the new EU member-states. On top of that, this will not be visible in the first quarter. The agricultural production dropped dramatically in 2007 due to adverse weather conditions and this will be „automatically” corrected only in the summer months. In 2007 public services dropped markedly only after the first quarter, thus, the basis is relatively high for the first quarter. The situation is similar in the retail trade, because the turnover increased a little in the first quarter of 2007. EU transfers that will contribute to the upturn in the construction sector are expected to flow only from the beginning of summer. At the same time, given the deteriorating European business environment, only 5-6% growth is expected in the industry (like in the last months of 2007). The increasing domestic (mainly investment-driven) demand can only partially substitute for the declining export demand. Nevertheless, the industry remains the main driving force of the economic growth. Rather favorable conditions will continue in most of the business services. The transport sector will not be able to repeat the last year's fast expansion of the transit shipments (which was partially due to the EU accession of Rumania and Bulgaria), while the expected larger agricultural production will increase the domestic demand. The co-financing of the EU projects will open new market possibilities for the financial sector.

Export of goods remains one of the driving forces of the economy, but its dynamism decreases because of the deteriorating European business opportunities and due to last years poor crop. On the other hand, the dynamism of the imports does not diminish due to intensifying investment activities, beginning increase of consumption and some deterioration of terms of trade. The several-year-long decreasing trend of trade deficit will halt, it may even increase, but its level is still very low. The surplus in the trade of services continues to grow moderately. On the other hand, the deficit in the balance of income will grow. Thus, the deficit of the current account remains more or less the same: around five billion euros. In 2008 Hungary starts using those EU funds that has been at the disposal of the country since 2007, while disbursements of funds from earlier period will take place as well. As a result, the external financing requirements of the national economy will decrease to 3.2 billion euros, i.e. to about 3% of GDP.

Inflation accelerated in the last months of 2007, mainly because of the increasing global energy-, raw material- and food prices, aggravated by the poor domestic agricultural production. These tendencies will continue in 2008 as well, but without the one-off effect of the budget consolidation measures. Thus, the inflation will abate slowly: from the 7.4% at the end of 2007 it decreased to 7.1% in January 2008. The annual average will be around 6%, the December figure may be around 4.5%. This year the forint perceptibly weakened before the abolishment of the fluctuation band; since than it strengthened significantly. The annual average exchange rate of the euro expected to be around 253 forints, accompanied by significant speculative fluctuations.

The increase of nominal income will slow down a little in 2008. Gross earnings will grow by 8% in the business sector and by 7% in the public sector. Thus, real wages in the national economy will grow by approx. 0.5-1%, but within this it will basically stagnate in the public sector.

Forecast of GKI Economic Research Co. on Developments in the Hungarian Economy in 2008

	2005	2006	2007	2008 forecast
1. Volume of GDP (%)	104.1	103.9	101.3	103
2. Industrial production (constant prices, %)	107.3	110.1	108.1	106
3. Investment in the national economy (constant prices, %)	105.3	97.9	99*	106
4. Construction (constant prices, %)	116.6	98.4	85.9	105
5. Retail trade (volume index, %)	105.8	104.4	97.0	101.5
6. Exports (current prices in euro %)	111.4	116.6	115.7	110
7. Imports (current prices in euro %)	108.3	113.9	111.9	110
8. Trade deficit (billion euros)	2.9	2.0	0.4	0.7
9. Combined deficit of the current & capital accounts (billion euros)	5.3	5.2	4.1*	3.2
10. Average exchange rate of euro (in forints)	248.0	264.3	251.3	253
11. Deficit of the general government (cash flow basis without local governments; billion forints)	984.4	2034	1291	1050
12. Index of average gross earnings	108.8	108.1	108.0	107.5
13. Consumer price index	103.6	103.9	108.0	106
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.3	106.5	107.4	104.5
15. Rate of unemployment (at the end of the period %)	7.3	7.5	7.7	7.4

* GKI Co. estimate

Sources of actual data: CSO, NBH, MoF