

Real earnings are already growing in the competitive sector.

According to the forecast prepared by GKI Economic Research Co. in co-operation with Erste Bank the Q1 2008 data show that the Hungarian economy will get out from the last year's "hole" in the second half of 2008.

In the Q1 of 2008 the performance of the Hungarian economy was 0.9% higher than in the corresponding period of the previous year. This is a very slow growth but it is what was expected by the experts and is somewhat faster than in the last quarter of 2007. Industrial production and exports grew dynamically, while the decrease of the output of the construction industry and retail trade slowed down. The growth of the performance of the transport of goods slowed down perceptibly, while that of the passenger transport accelerated a bit. The 4.8% decline in the investments is basically a result of the contraction in the government developments, while the investments in the agriculture, domestic trade and tourism expanded by 20-50% – although from a low basis.

In the year as a whole the expansion of the economy, which was only 1.3% in 2007 is expected to reach 2.5-3% in 2008 and in the second half of the year the growth rate will be around 3.5%. This will be basically the result of the stabilization of those sectors, which declined in 2007, while the industry – the main driving force of growth in 2007 – may even slow down a little. After the last year's poor performance of the agriculture, the growth will be significant even if the weather will be just normal. Several sectors, which declined in 2007 and in the first months of 2008 (like construction, trade and public services) will at least stagnate or even grow – contributing to the improvement of the performance of the whole economy. In the second half of the year new EU-supported developments will start in the infrastructure improving the situation in the construction industry.

The moderate growth of the real earnings sooner or later will lead to modest expansion of the retail trade turnover. Last year the public services decreased. This year – since out-of-pocket co-payments for doctors visits have been eliminated – the demand for health care services and the apparent contribution of the health sector to the GDP will increase, while the contribution of the education probably will decrease. All these factors will make probable bottoming out from the last years "hole" of the growth of the economy – even if the industrial production will slow down due to the deteriorating European economic environment. This will mean that the speed of the Hungarian economic growth will be already faster than the EU average, but slower than the development in the new member states.

In the first quarter the trade balance of goods was positive, but the balance for the whole year probably will be around zero, because the slowly expanding investment and consumption demand will push up the imports. In the first four months of the year the deficit of the general government was considerably lower than in the corresponding period of the previous year. Since December 2007 inflation has been slowing down by 0.2 percentage points each month (in April only by 0.1%). In 2008 the annual average inflation is expected to be around 6-6.5% and by the end of the year around 5%.

For the time being the increase of the gross wages in the business sector is considerably higher than the upper limit of the 5-7.5% band recommended by the National Interest Reconciliation Council: it is close to 11%, which was a 2% increase in real earnings in the first quarter. The increase of gross earnings is similar in the public sector as well. During the year as a whole average real earnings will grow by 1%, but within this the wages in the public sector will stagnate.

Given the improving financial assessment of the region, the high and several times increased base rate of the central bank, the forint is very strong. It will be unavoidable to lower the interest rates during the rest of the year.

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

	2005	2006	2007	Q1 2008	2008 forecast
1. Volume of GDP (%)	104.1	103.9	101.3	101.6	102.7
2. Industrial production (constant prices, %)	107.3	110.1	108.1	106.9	106
3. Investment in the national economy (constant prices, %)	106.4	98.0	100.3	95.2	104
4. Construction (constant prices, %)	116.6	98.4	85.9	80.8	102
5. Retail trade (volume index, %)	105.8	104.4	97.0	96.9	101
6. Exports (current prices in euro %)	111.4	116.6	115.7	112.7	110
7. Imports (current prices in euro %)	108.3	113.9	111.9	110.2	109
8. Trade balance (billion euros)	-2.9	-2.0	-0.3	0.2	0
9. Combined balance of the current & capital accounts (billion euros)	-5.3	-5.2	-4.0	-	-3.5
10. Average exchange rate of euro (in forints)	248.0	264.3	251.3	258.6*	250
11. Deficit of the general government (cash flow basis without local governments; billion forints)	984.4	2034	1291	522.4*	1050
12. Index of average gross earnings	108.8	108.1	108.2	106.5	108.5
13. Consumer price index	103.6	103.9	108.0	106.8*	106.2
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.3	106.5	107.4	106.6*	105
15. Rate of unemployment (at the end of the period %)	7.3	7.5	7.7	7.7**	7.5

* Jan.-April 2008

**February-April

Sources of actual data: CSO, NBH, MoF