

The forint is very strong

The forecast prepared by GKI Economic Research Co. in co-operation with Erste Bank shows that this year both the internal and external equilibrium improve significantly and the Hungarian economy gets out of the „hole“.

As a result of the deteriorating European business environment the industrial exports and production slowed down, while the contraction of the of the branches serving the domestic market is diminishing due to slackening decline of the domestic demand. In the first five months of 2008 the industrial production was 6.9% higher, the output of the construction industry 12% lower than in the corresponding period of the previous year. The growth of the exports is faster than that of imports; in the first five months of the year the exports were 400 million euros higher than the imports. The number of people employed decreased, the unemployment rate is 7.6%, which is better than at the beginning of the year, but higher than a year ago. Retail trade turnover decreased by 2.1%.

Due to the good agricultural production the GDP is expected to grow by approximately 3%.

In the first five months of 2008 the gross average earnings of full-time employees were 195 700 forints, the net average earnings 120 500 forints. The gross average earnings increased by 7.9%, the net average earnings by 7.2% - compared to the corresponding period of the previous year. Within this the growth of net earnings was 8.9% in the competitive sector and 4.1% in the budgetary sector. In the latter one the new system of the 13th month's salary is reflected as well. All in all the decline of the real earnings in the national economy as a whole slowed down month by month and the average of the first five months was 0.3% higher than a year earlier. Within this there was a 2% increase in the competitive sector and a 2.5% decrease in the budgetary sector. In the year as a whole we expect the real earnings to increase by an approximately 2% in the competitive sector and stagnate in the budgetary sector.

In June 2008 the consumer prices increased by 0.1% compared to the previous month and the twelve month index decreased from 7% to 6.7%. The food prices showed a mixed picture. While the price of meat products increased by 3.3%, the price of fruits and vegetables decreased by 7.3%. The average food prices decreased by 0.4%. The price of clothing and other consumer goods somewhat moderated. The fuel prices increased by further 2%. The group of products the price of which increases is growing. In June the core inflation decreased only to 5.8% (from the 5.9% in May) that projects a modest slowdown of inflation. In 2008 as a whole a 6.5% price increase is expected, the year-end inflation will be around 5.5%. At the same time the price of food and household energy will increase by more than 10%.

In July the forint strengthened considerably. The strengthening was due to the high central bank base rate and high interest rates of the government papers; although the speculation, the improving financial assessment of the region and the improving external and internal equilibrium also played a role. In the coming months some weakening of the forint is expected. There may be some uncertainty and even significant weakening if the minority government will have difficulty in preparing the 2009 budget. The adoption of the budget may bring strengthening again, while an eventual rejection may lead to further weakening.

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

	2005	2006	2007	January-May 2008	2008 Forecast
1. Volume of GDP (%)	104.1	103.9	101.3	101.7*	103.0
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	87.9	102
5. Retail trade (volume index, %)	105.8	104.4	97.0	97.6	101.0
6. Exports (current prices in euro %)	111.4	116.6	115.7	113.5	110
7. Imports (current prices in euro %)	108.3	113.9	111.9	110.9	109
8. Trade balance (billion euros)	-2.9	-2.0	-0.3	0.4	0
9. Combined balance of the current & capital accounts (billion euros)	-5.3	-5.2	-4.0	-0.4*	-3.5
10. Average exchange rate of euro (in forints)	248.0	264.3	251.3	253.6**	245
11. Deficit of the general government (cash flow basis without local governments; billion forints)	984.4	2034	1291	722.0**	1000
12. Index of average gross earnings	108.8	108.1	108.2	107.9	108.5
13. Consumer price index	103.6	103.9	108.0	106.8**	106.5
14. Consumer price index at the end of the period (corresponding month of the previous year=100)	103.3	106.5	107.4	106.7**	105.5
15. Rate of unemployment (at the end of the period %)	7.3	7.5	7.7	7.6***	7.5

* Q1 2008

** H1 2008

***Q2 2008

Sources of actual data: CSO, NBH, MoF