

## Press release

Slowdown of **global growth** which started last year will continue, with expectations of some upswing during next year, at the earliest. In 2008 the volume of **world trade** continues to shrink (6-6.5%), to be followed by moderate increase, pending on changes in world economic environment. Increasing risks continue to prevail: confidence has not been restored on international **money markets** and credit conditions tightened both in Europe and in the US. As a result of data confirming problems of the US economy, as well as the FED benchmarking on a rate-cutting policy, the dollar continues to loose its value. Its exchange rate fluctuates around 1.5 USD/Euro with no sings of a change in this trend. To avoid recession, the FED continues to decrease the benchmark, whereas the ECB, quoting increasing inflation risks, would not loosen monetary conditions as long as possible. Driven by a weakening of the USD, rising costs of exploiting countries, increasing demand, and continued speculation, **oil prices** continue to rise. Under current conditions the price of crude oil per barrel can be around 92-96 SUD/barrel – possibly including high fluctuations. Albeit it is difficult to project anything for 2008, there are no signs of a decrease in oil prices.

We still do not suppose that slowing down of growth in the US could result in a recession and in case of a favorable scenario we foresee 1.6% increase this year, with some upswing of about 2% next year. The **Chinese economy** continues to accelerate and at this point global risk factors are not perceivable in Russian and former CIS countries' growth.

Last year's growth rate of 2.7% in the old **EU-15** and the 15-member Euro-zone would be followed by a more moderate rate of 1.6% this year. Pending on Germany, it could rise to 2% next year. Slow-down both in the US and Europe would be the result of increasing inflation primarily geared by increasing energy and agricultural prices.

Growth rate of new EU members would also decelerate to about 5%, subsequent to 6.1% in 2007. Czech, Slovakian, Polish and Slovenian economies (the latter a member of the EMU) show both vigorous and favorable growth structures. In addition to boom in consumption, investments and exports are increasing. Parallel to this, Visegrad countries' budget deficit is on the decline. It seems that besides a lack of political will, only increasing inflation could be an obstacle to their entering the Euro zone, rather than fiscal achievements. Nevertheless, Slovakia might just be able to meet the inflation criteria and can become Euro zone member as of 2009. As opposed to this, in the overheated Baltic counters struggling with a double-digit inflation and partly in Romania and Bulgaria, a correction with significant slow-down can be expected. Last year's average unemployment of 7.8% is expected to decline to 7-7.5% in the region.

In 2007 the **Hungarian economy** declined to an 11-year low: since 1996 there not a single GDP figure was worse than 1.3%, a growth rate which is the lowest among all EU members. At the same time, an 8% consumer price index of was the second highest, after Latvia. Employment situation was relatively satisfactory until the middle of the year, when unemployment rate started to increase steeply. Budget balance, however, improved at a pace better than expected, as it decreased by over 3.5% of the GDP, a significant improvement in a single year. We need to note, however, that the current deficit level of 5.7% to the GDP is still by far the highest in the European Union.

In 2008 economic growth could reach 2-2.5%. Most of the factors hampering growth would continue to prevail, but at a narrower scope: performance of public financed sectors continues to decrease at a smaller rate than last year. Business sector is expected to increase by approximately the same rate as last year (3.5%) Despite of the slight deterioration of external business climate, *exports* continue to be the main driving force behind growth. Companies producing for the domestic market continue to face difficulties in their sales as domestic demand is expected to increase by only 1.5% in 2008. In manufacturing the dynamics of the previous few years could decline somewhat, but KOPINT-TÁRKI does not foresee a significant decline.

Following last year's decline, net real wages would increase by 0.5%, allowing a stagnation of household consumption as opposed to a decline. Unemployment rate would lock in at 8.1% recorded at the end of last year, resulting in some deterioration on an annual average rate.

Consumer prices are expected to increase by 6% with an upward risk of world market food and energy prices.

The 4% budget deficit set forth in the Convergence Program can be considered realistic. What's more, a slight overshoot of revenues cannot be excluded, but definitely below that of last year.

During the last two month Government bond and T-bill market situation deteriorated significantly, shedding light on Hungary's volatility against international market turbulences. Favorable money market reaction to abandoning the HUF trading band was temporary, indicating that low investment trust makes it necessary to increase the benchmark. We expect that the benchmark would be higher during most of the year, but there is a chance that money markets would clam down after temporary fluctuations.

	2006	2007		Forecast			
		2007 Dec	2007 fact	for 2008			for 2009
				2007 Oct	2007 Dec	2008 Mar	2008 Mar
GDP total	3,9	1,5	1,3	3,2	2,5	2,2	3,0
Domestic consumption	1,1	-0,5	-0,3	0,7	0,5	0,5	1,0
Private Consumption	2,1	-1,8	-2,1	0,3	0,0	0,0	1,8
Public consumption	6,6	-5,0	-3,2	-5,0	-4,0	-4,0	0,0
Gross fixed asset accumulation	-2,8	1,0	1,0	3,0	3,0	3,0	5,0
Export	18,9	16,0	14,2	11,0	11,0	10,8	11,0
Import	14,5	13,5	12,2	8,5	9,0	9,0	9,0
Industrial production	9,9	8,5	8,1	7,0	7,0	6,2	6,5
Consumer Price Index	3,9	8,0	8,0	4,5	5,2	6,0	3,8
Rate of unemployment (ILO %)	7,5	7,3	7,4	7,5	7,6	8,1	8,0
Net real wages, from Jan	3,5	-4,2	-4,8	0,5	0,5	0,5	2,5
Savings rate	2,9	1,9	1,7	2,3	2,0	2,0	2,3
Foreign Trade Balance, bill. Euros	-2,4	-1,0	-0,3	-1,0	-1,0	-0,2	0,5
Current account balance, bill. Euros	-5,2	-4,1	-4,0	-3,9	-3,9	-3,7	-3,5
Current account balance, % of GDP	-5,7	-4,0	-3,9	-3,6	-3,6	-3,2	-2,7

Closed: March 08, 2008