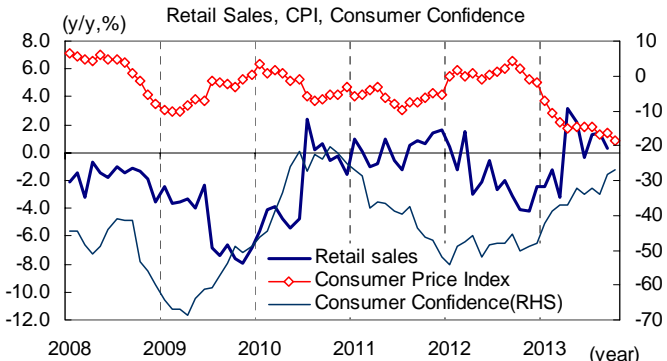
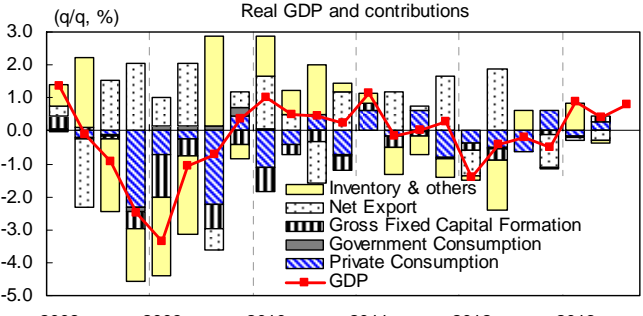
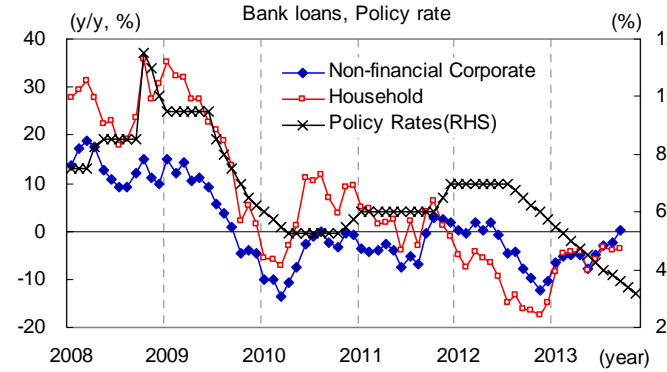


Main Economic & Financial Indicators: Hungary

Economic Research Office
(Akiko Darvell, akiko.darvell@uk.mufg.jp)

Overview	Consumption
<p>The economic recovery is becoming more visible as real GDP has grown for three quarters in a row supported by both domestic and external factors, accelerating to 0.8% q/q in Q3 from 0.4% q/q in Q2. Exports have started to grow positively with increased demand from the EU. Meanwhile, the deceleration in the inflation rate, which is in line with the same trend seen in the other Eastern European countries, together with improvements in the labour market is supporting the recent recovery in consumer confidence.</p> <p>Looking ahead, the economic recovery is likely to continue throughout 2014. The Hungarian economy is more vulnerable to economic conditions in the euro area than any other Central and Eastern European countries, judging by how the country's economy has fared recently against the backdrop of a recession in the euro area. However, the recent return of positive growth in the Eurozone economy is likely to provide some support to the Hungarian economy. Adding to this, the effect of the monetary easing by the Hungarian central bank is expected to pass through to the economy. The bank has been cutting its interest rates since August, 2012, from 7.0% to 3.2%, and has hinted that it is looking to cut rates further. It has also engaged in monetary easing using non-traditional means. To tackle the tight credit conditions which have been a drag on the economy, the bank made a total of 2.75 trillions forint funding available for financial institutions as a measure to promote lending to small and medium sized companies since June. Thanks to this, business lending in September exceeded the previous year's level for the first time in the last sixteen months. Lending to household is still decreasing but at slower pace. Although there remain risk factors such as the high level of government debt, real GDP growth is likely to continue to recover modestly.</p>	<p>Retail sales (working-day adjusted) in September rose by 0.3% y/y, slowing down from the 1.4% y/y growth in August. However, they exceeded the previous year's level for the third consecutive month. Also consumer confidence in October stood at -27.0, the highest level since 2011. The outlook for the general economic and household financial situation has improved while concerns over unemployment and inflation have eased. The unemployment rate (three-month backward moving average) in September fell to 9.8%, the lowest level since 2009.</p>  <p>(Source) Macrobond</p>
<h3>GDP</h3>	<h3>Prices/Monetary policy</h3>
<p>Real GDP growth in Q3 accelerated to 0.8% q/q from 0.4% q/q growth in Q2. Detailed breakdown of this figure has not yet been released. However, looking at output indicators, growth in industrial production is showing some resilience as external demand from Germany, its main export partner, is recovering. Construction activity also returned to positive territory. Looking at indicators on the demand side, private consumption seems to be recovering reflecting improvements in the employment situation and lower inflation. This appears to suggest that the economic recovery is becoming more broadly based.</p>  <p>(Source) Macrobond</p>	<p>The consumer price index rose by 0.9% y/y in October, slowing from 1.4% y/y in September. It remained below the central bank's target band of 2-4% for the seventh consecutive month. Looking ahead, upward inflationary pressures are likely to remain weak given that the government will cut regulated energy prices again in January 2014.</p> <p>At the monetary policy meeting held on November 26th, the central bank decided to cut its policy rate again by 0.2% points to 3.2%. This represents sixteenth consecutive rate cuts. In the meeting, it was suggested that the economy is on a recovery path and its growth is likely to accelerate next year. It was also indicated during the meeting that the bank is likely to continue its monetary easing given the very slow recovery of domestic demand and low inflation.</p>  <p>(Source) The Central Bank of the Republic of Hungary</p>
<h3>Output</h3>	<h3>External debt</h3>
<p>Industrial production in September returned to a positive growth, up 5.5% y/y, from the negative growth of 1.5% y/y in August. Overall growth was largely supported by the export markets, up 11.8% y/y. The manufacturing sector firmly grew by 4.2% y/y, thanks to increased production of motor vehicles. October's Purchasing Managers Index (PMI) for the manufacturing sector stood at 51.0, down from the September's high of 54.4, but it remained above the 50 mark which indicates an expansion in the sector. A breakdown of this figure suggests that domestic and export new orders rose. Employment also increased for three months in a row.</p>	<p>In early October, the government announced the 2014 budget plan which set its budget deficit target at 2.9% of GDP. The government expects tax revenues to increase based on its forecast that real GDP growth will accelerate to 2.0% y/y. However, there remain downside risks to this growth forecast given the slow pace of domestic demand recovery. Meanwhile, ahead of the National Assembly election in April 2014, many populist proposals are being implemented such as lowering gas and electricity prices, increasing a part of public sector wages, as well as tax allowances for families with children. Thus, there is a concern that the budget deficit may exceed the EU's threshold of 3.0% of GDP.</p>

Main Economic & Financial Indicators: Hungary

1. Annual and quarterly data

	2010	2011	2012	12/Q3	12/Q4	13/Q1	13/Q2	13/Q3
GDP (at current prices) (US\$ bn)	127.8	138.6	125.5	31.9	35.3	28.8	32.1	-
Real GDP growth (% , y/y)	1.0	1.6	-1.6	-1.7	-2.7	-0.8	0.5	1.7
(Private consumption) (% , y/y)	-3.1	0.5	-1.3	-3.7	-0.9	-0.8	0.7	-
(Gross fixed capital formation) (% , y/y)	-9.1	-3.5	-3.7	-1.7	-5.7	-6.0	4.9	-
Industrial production (exc.construction) (% , y/y)	10.6	5.8	-1.7	-0.9	-5.5	-3.8	0.8	3.2
Retail sales* (% , y/y)	-2.3	0.3	-2.0	-2.5	-3.6	-2.3	1.7	1.0
Bank credits to the private sector (% , y/y)	4.1	-0.1	-13.2	-11.9	-13.2	-6.2	-5.9	-2.6
Consumer price index (% , y/y)	4.9	3.9	5.7	6.1	5.4	2.9	1.8	1.5
Gross average earnings growth (% , y/y)	1.4	5.2	4.7	4.9	5.1	3.0	3.8	3.9
Unemployment rate * (%)	11.2	11.0	10.9	10.4	10.8	11.5	10.3	-
Trade balance * (US\$ mn)	7,315	9,842	8,523	2,138	1,713	2,253	2,349	2,529
Exports (US\$ mn)	94,749	111,218	102,830	24,906	25,958	26,342	26,744	27,183
Export growth (% , y/y)	14.7	17.4	-7.5	-11.0	-5.1	0.9	3.5	9.1
Imports (US\$ mn)	87,434	101,375	94,308	22,768	24,245	24,089	24,395	24,653
Import growth (% , y/y)	13.1	15.9	-7.0	-11.6	-4.0	0.6	4.5	8.2
Current account (US\$ mn)	276	620	1,306	856	13	879	799	-
Capital and financial balances (US\$ mn)	4,683	7,163	-7,432	-2,695	-832	1,420	-2,589	-
Foreign direct investment (US\$ mn)	2,217	5,297	13,733	1,824	5,224	903	-926	-
Foreign reserves (US\$ mn)	43,147	45,393	41,891	40,486	41,891	43,155	43,811	40,729
External debt (US\$ mn)	185,646	172,191	161,015	160,690	161,052	162,783	160,945	-
Stock price index	22,487	20,502	18,060	17,767	18,508	18,828	18,625	18,535
Short-term int. rates (Interbank BUBOR 3m, %)	5.5	6.2	7.0	7.1	6.2	5.4	4.6	3.9
EU Harmonised Gov. 10y bond yields (%)	7.3	7.6	7.9	7.4	6.8	6.3	5.6	6.1
Forint/USD	208.2	201.2	225.1	226.3	218.6	224.6	226.5	224.9
Forint/Euro	275.4	279.4	289.3	283.0	283.5	296.6	295.7	298.0
Forint/GBP	321.3	322.2	356.6	357.4	350.9	348.5	347.7	348.7

2. Monthly data

	13/03	13/04	13/05	13/06	13/07	13/08	13/09	13/10
Industrial production (exc.construction) (% , y/y)	-3.6	4.8	-2.0	-0.5	5.5	-1.5	5.5	-
Retail sales* (% , y/y)	-3.1	3.2	2.2	-0.4	1.3	1.4	0.3	-
Bank credits to the private sector (% , y/y)	-6.2	-6.4	-9.5	-5.9	-3.9	-4.0	-2.6	-
Consumer price index (% , y/y)	2.2	1.7	1.8	1.9	1.8	1.3	1.4	0.9
Gross average earnings growth (% , y/y)	3.3	4.7	2.9	3.8	2.1	4.7	5.0	-
Unemployment rate * (%)	11.8	11.0	10.5	10.3	10.1	9.9	9.8	-
Trade balance * (US\$ mn)	942	883	697	768	582	817	1,131	-
Exports (US\$ mn)	8,943	8,929	8,988	8,827	8,875	8,504	9,804	-
Export growth (% , y/y)	-4.7	10.1	-0.1	0.9	11.3	3.7	12.3	-
Imports (US\$ mn)	8,002	8,046	8,291	8,059	8,293	7,687	8,673	-
Import growth (% , y/y)	-6.0	7.0	3.2	3.4	10.3	3.2	11.1	-
Stock price index	18,401	18,042	18,796	19,069	18,864	18,354	18,364	18,642
Short-term int. rates (Interbank BUBOR 3m, %)	5.1	4.8	4.5	4.4	4.1	3.9	3.7	3.5
EU Harmonised Gov. 10y bond yields (%)	6.4	5.7	5.1	6.0	5.8	6.3	6.2	5.6
Forint/USD	233.8	229.4	225.5	224.4	225.5	224.8	224.4	216.0
Forint/Euro	303.1	298.9	292.7	295.7	294.9	299.5	299.7	294.8
Forint/GBP	352.7	351.2	344.8	347.3	342.2	348.6	356.0	347.6

Source: Macrobond, Hungarian National Bank, IMF etc.

*Retail sales: real growth, working-day adjusted. Unemployment rate: three months moving average. External trade: customs clearance basis

The Bank of Tokyo-Mitsubishi UFJ, Ltd., London Branch ("BTMU LONDON") is based in England at Ropemaker Place, 25 Ropemaker St., London EC2Y 9AN. BTMU LONDON is authorised and regulated by the Japanese Financial Services Authority. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

This report shall not be construed as solicitation to take any action such as purchasing/selling/investing in financial market products. In taking any action, each reader is requested to act on the basis of his or her own judgment. This report is based on information believed to be reliable, but we do not guarantee, and do not accept any liability whatsoever for, its accuracy and we accept no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. The contents of the report may be revised without advance notice. Also, this report is a literary work protected by copyright. No part of this report may be reproduced in any form without express statement of its source.

The Bank of Tokyo-Mitsubishi UFJ, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and The Bank of Tokyo-Mitsubishi UFJ, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.