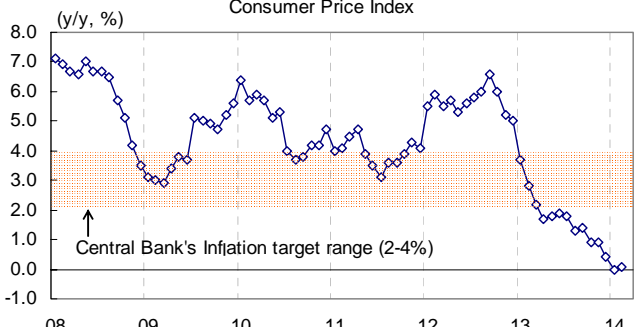


Main Economic & Financial Indicators: Hungary

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Overview	Consumption
<p>The Hungarian economy is on a gradual recovery path after falling into recession in 2012, which was affected by a downturn in the eurozone. In 2013, real GDP was up 1.1% y/y, reflecting an increase in government investment as well as a recovery in export demand, particularly from Germany. The rating agency S&P updated Hungary's sovereign rating outlook from "Negative" to "Stable" on March 28th, reflecting the country's economic recovery and the recent widening of current account surplus on the back of a growth in exports (Hungary's rating was unchanged at "BB").</p> <p>Looking ahead, there remain downside risks to the economy. Private consumption has started to recover since the latter half of 2013, albeit at a very slow pace, on the back of a series of interest rate cuts by the Central Bank of Hungary, as well as lower inflation and a better economic outlook. That being said, capital flight from emerging markets after the US Fed's tapering of its asset purchase programme, as well as the turmoil in Ukraine, has hurt the value of the Forint (down by 3.4% and 3.0% against the Euro and US Dollar, respectively, between January and March), increasing households' foreign currency loan burdens. Government investment, which contributed to growth in 2013, may also shrink after the parliamentary election on April 6th, in order to limit the fiscal deficit to within the EU's threshold of 3%. Meanwhile, financing remains difficult for the corporate sector as bank lending to businesses continues to decline. In light of these circumstances, domestic demand is likely to remain weak for some time.</p>	<p>Retail sales (working-day adjusted) in February remained resilient, up by 6.7% y/y. Consumer confidence rose to a level last seen in 2006, reflecting better economic prospects as well as receding concerns over inflation and unemployment. The unemployment rate in January was at 8.6%, the lowest level since 2008. It should be noted, however, that the recent improvements in unemployment are a result of the increase in the number of people employed under the government's public works programme, which provides training and qualifications for the unemployed on a short-term basis (this programme is due to finish at the end of April). Meanwhile, bank lending to households remains depressed. A rising rate of non-performing loans in household lending (which rose from just above 1% of total loans in 2009 to 13.5% in 2013 Q4) as a result of the depreciation of the Forint after the financial crisis continues to constrain bank lending to households, leaving the lending rate high despite the central bank's series of rate cuts.</p>  <p>(Source) Central Bank of Hungary</p>
GDP	Prices/Monetary policy
<p>Real GDP was up 1.1% y/y in 2013 after contracting 1.6% y/y in 2012. Gross fixed capital formation led overall growth, up by 5.9% y/y, recording positive growth for the first time since 2008. It was elevated by a sharp increase in government investment, which was up 34.0% y/y. Meanwhile, investment in the private sector remained weak, up by only 3.1% y/y. Private consumption edged up slightly by 0.2% y/y, reflecting positive growth in the second half of the year.</p>  <p>(Source) Macrobond</p>	<p>The consumer price index rose by 0.1% y/y in February, up slightly from 0.0% y/y in January, but inflationary pressure remained weak. Looking ahead, the inflation rate is likely to increase gradually, as the effect of the Forint depreciation since January has started to pass through to consumer prices, while the effect of the government's cuts in gas and electricity prices in 2013 is dissipating. The central bank projects that the inflation rate in 2014 will remain low at 0.7%, given that domestic demand is likely to remain sluggish.</p> <p>The central bank's monetary policy committee held on March 26th continued to cut interest rates, by 10bps to 2.6%. This is the 20th consecutive cut since August 2012, bringing the total cuts to 4.4%. Given the recent capital flight on the back of the US Fed's QE tapering and the crisis in Ukraine, the central bank's easing cycle may have come to an end as further cuts may damage foreign investors' appetite to invest in the country.</p>  <p>(Source) Macrobond</p>
Output	
<p>Growth in industrial production slowed slightly in January to 6.1% y/y from 6.8% y/y in December, but it remained resilient nonetheless. The Purchasing Managers Index (PMI) for the manufacturing sector stood at 53.7 in March, down from January's 57.8, the highest level since 2007. However, it remained above the 50 mark which indicates an expansion in the sector. A breakdown of this figure suggests that new orders, export orders in particular, had increased, indicating that the industrial output level is likely to continue its resilience for some time.</p>	

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1. Annual and quarterly data

	2011	2012	2013	13/Q1	Q2	Q3	Q4	14/Q1
GDP (at current prices) (US\$ bn)	137.4	124.6	130.2	28.7	31.9	33.3	36.4	-
Real GDP growth (% , y/y)	1.6	-1.6	1.1	-0.8	0.5	1.8	2.7	-
(Private consumption) (% , y/y)	0.3	-1.7	0.2	-0.6	0.2	0.1	1.0	-
(Gross fixed capital formation) (% , y/y)	-5.9	-3.5	4.7	-5.2	5.4	8.3	10.4	-
Industrial production (exc.construction) (% , y/y)	5.8	-1.7	1.4	-3.7	0.8	3.1	5.5	-
Retail sales* (% , y/y)	0.3	-1.9	1.7	-2.6	1.5	2.7	4.9	-
Bank credits to the private sector (% , y/y)	-0.1	-13.2	-4.2	-6.2	-5.9	-2.6	-4.2	-
Consumer price index (% , y/y)	3.9	5.7	1.7	2.9	1.8	1.5	0.7	-
Gross average earnings growth (% , y/y)	5.2	4.7	3.4	3.0	3.8	3.9	2.9	-
Unemployment rate * (%)	11.0	10.9	10.2	11.5	10.3	9.8	9.1	-
Trade balance * (US\$ mn)	9,842	8,523	9,308	2,146	2,227	2,486	2,450	-
Exports (US\$ mn)	111,218	102,830	108,579	26,197	26,680	27,129	28,573	-
Export growth (% , y/y)	17.4	-7.5	5.6	0.3	3.2	8.9	10.1	-
Imports (US\$ mn)	101,375	94,308	99,271	24,051	24,453	24,644	26,123	-
Import growth (% , y/y)	15.9	-7.0	5.3	0.4	4.7	8.2	7.7	-
Current account (US\$ mn)	583	1,062	3,904	692	748	1,597	868	-
Capital and financial balances (US\$ mn)	7,470	-7,322	-3,538	1,224	-2,594	-5,602	3,573	-
Foreign direct investment (US\$ mn)	5,745	13,940	3,075	958	-878	-2,156	5,297	-
Foreign reserves (US\$ mn)	45,393	41,891	44,863	43,155	43,811	40,729	44,863	-
External debt (US\$ mn)	172,996	164,563	160,437	163,743	161,981	155,015	158,480	-
Stock price index	20,502	18,060	18,652	18,828	18,625	18,535	18,625	18,056
Short-term int. rates (Interbank BUBOR 3m, %)	6.2	7.0	4.3	5.4	4.6	3.9	3.3	2.8
EU Harmonised Gov. 10y bond yields (%)	7.6	7.9	5.9	6.3	5.6	6.1	5.7	-
Forint/USD	201.2	225.1	223.6	224.6	226.5	224.9	218.5	224.6
Forint/Euro	279.4	289.3	296.9	296.6	295.7	298.0	297.4	307.8
Forint/GBP	322.2	356.6	349.7	348.5	347.7	348.7	353.7	371.7

2. Monthly data

	13/08	9	10	11	12	14/01	2	3
Industrial production (exc.construction) (% , y/y)	-1.5	5.4	5.9	3.8	6.8	6.1	-	-
Retail sales* (% , y/y)	3.4	2.2	4.5	6.7	3.6	6.2	6.7	-
Bank credits to the private sector (% , y/y)	-4.0	-2.6	-3.2	-1.7	-4.2	-2.0	-2.3	-
Consumer price index (% , y/y)	1.3	1.4	0.9	0.9	0.4	0.0	0.1	-
Gross average earnings growth (% , y/y)	4.7	4.9	5.7	4.1	-1.1	0.9	-	-
Unemployment rate * (%)	9.8	9.8	9.3	9.1	8.9	8.6	-	-
Trade balance * (US\$ mn)	785	1,115	968	1,067	415	654	-	-
Exports (US\$ mn)	8,469	9,802	10,438	10,028	8,107	9,040	-	-
Export growth (% , y/y)	3.3	12.3	9.4	7.1	15.0	5.9	-	-
Imports (US\$ mn)	7,684	8,687	9,470	8,961	7,692	8,386	-	-
Import growth (% , y/y)	3.2	11.3	8.3	3.7	12.1	2.6	-	-
Stock price index	18,354	18,364	18,642	18,755	18,483	19,011	18,117	16,951
Short-term int. rates (Interbank BUBOR 3m, %)	3.9	3.7	3.5	3.3	3.1	2.9	2.8	2.7
EU Harmonised Gov. 10y bond yields (%)	6.3	6.2	5.6	5.8	5.8	5.6	6.0	-
Forint/USD	224.8	224.4	216.0	220.9	218.7	221.8	226.9	225.3
Forint/Euro	299.5	299.7	294.8	297.7	300.0	302.2	310.2	311.5
Forint/GBP	348.6	356.0	347.6	355.8	358.2	365.4	375.9	374.5

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

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