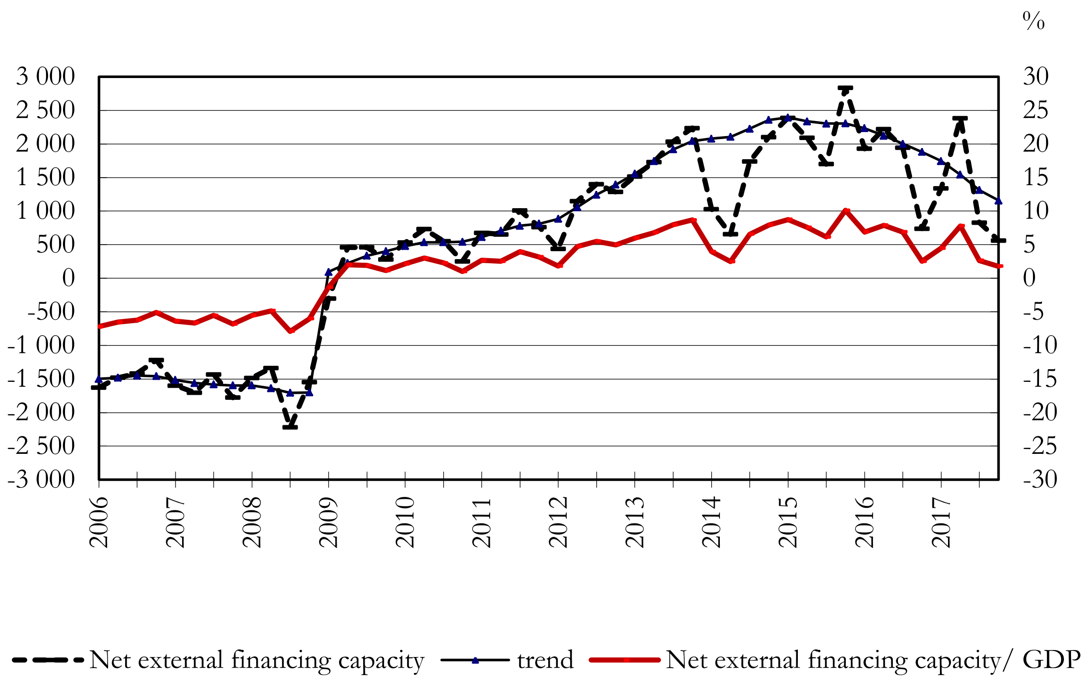
MINISTRY
FOR NATIONAL ECONOMY

Hungary's balance of payments account remained positive in Q4 2017

Persistently positive real economic trends, among them export and import growth, have caused Hungary's balance of payments account to remain positive also in the last quarter of 2017 – as the latest report by the National Bank of Hungary (MNB) shows.

Since the second half of 2014, Hungary's balance of payments account has been positive in each quarter, with EUR 0.2bn registered in the last quarter of 2017. Concurrently, the country's net external financing capacity reached 1.8 percent of GDP, while it was 2.5 percent in the corresponding period of the previous year. At the end of 2017, the stock of MNB reserve assets was up in comparison to prior quarters, nearing EUR 23.4bn.

Fig. 1: Net external financing capacity
(seasonally adjusted data, in million euros (left scale) and per GDP (right scale))

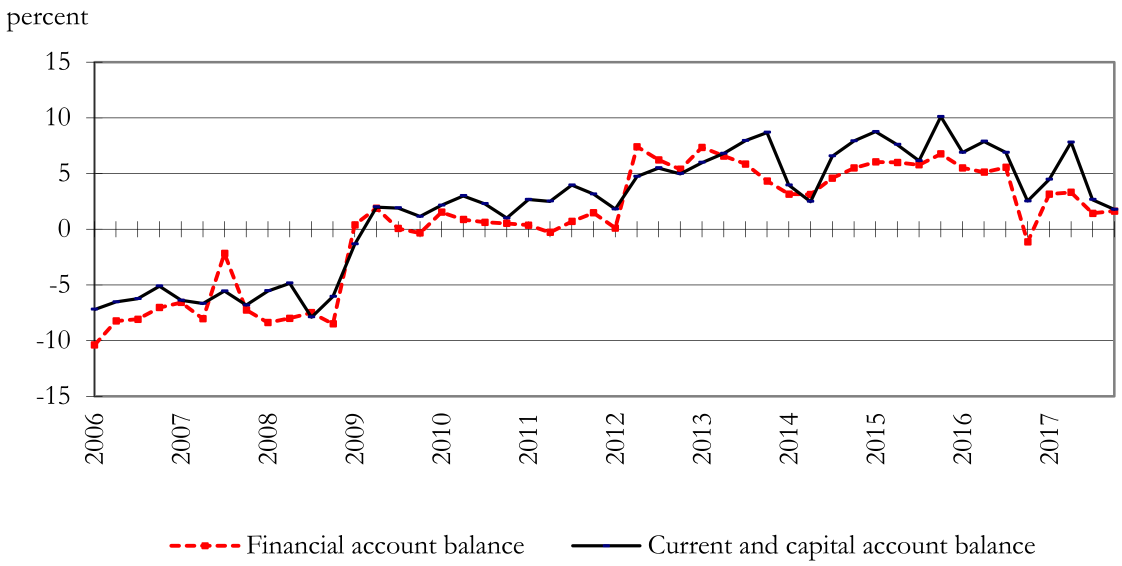


Source: MNB

Taking the top-down approach one can see regarding the components of net external financing capacity (calculated as the balance of the current and capital account) that although the surpluses of both the current account as well as the capital account have slightly decreased compared to the previous quarter, the latter was still well above the deficit recorded in the corresponding period of last year (EUR 172 million vs. a shortfall of EUR 310 million).

The surplus in the balance of the financial account, i.e. *if the bottom-up approach is taken*, which accounted for 1.6 percent of GDP in Q4 2017, was slightly better than in the previous quarter (1.4 percent) and well above the figure seen in the corresponding period of the previous year (-1.1 percent).

Fig. 2.: Alternative measurements of seasonally adjusted external financing capacity (% of GDP)

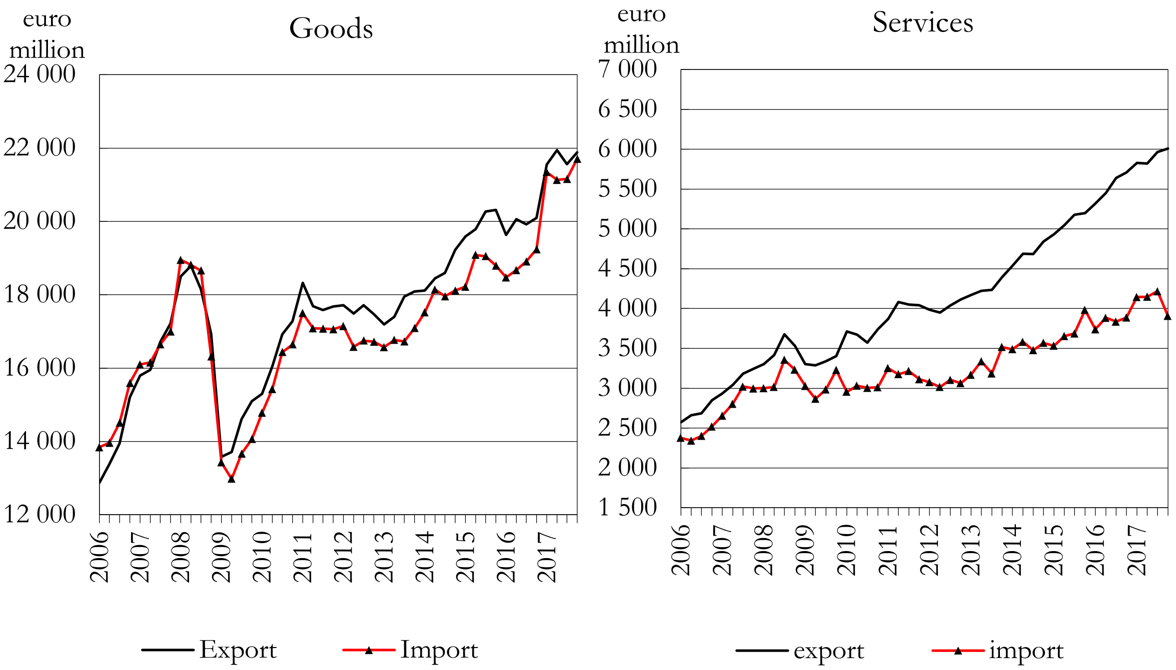


Source: MNB

Of the components of Hungary's *current account*, the seasonally adjusted surplus on trade of goods declined slightly quarter-on-quarter, due to the fact that the growth of imports was higher than that of exports. Thus, the accumulated surplus in the trade of goods was EUR 364 million, resulting from export and import volumes of EUR 21.9bn and EUR 21.7bn, respectively. Taking a closer look on trade of goods data reveals that export credits grew markedly, by 9.6 percent, year-on-year. The fact that import growth in the observed period (12.8 percent) slightly exceeded that of exports is seen by experts as a sign of a pick-up in economic activity. On the other hand, the surplus of the *trade in services* was up compared to the previous quarter (Fig. 3), totalling EUR

1.9bn. Within the category, net travel rose in spite of lower credits as well as debits, to exceed EUR 0.8bn. A similar trend was observed in the case of other services.

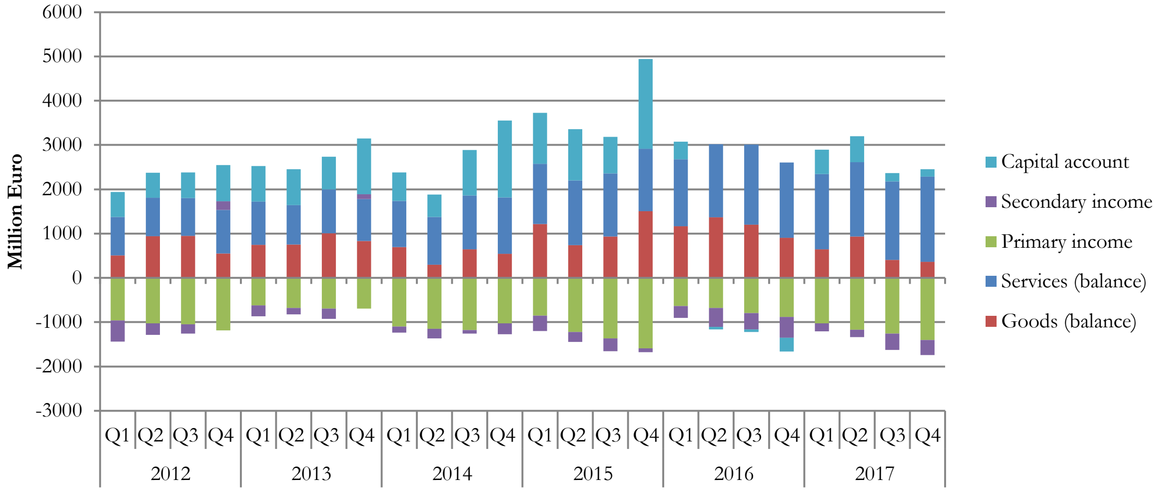
Fig. 3: Goods and Services exports and imports (seasonally adjusted data)



Source: MNB

Of other external financing capacity components, the deficit of *primary income* (EUR 1.4bn) was higher while that of *secondary income* was lower (EUR 340 million) in comparison to the previous quarter.

Fig. 4: Evolution of external financing capacity by components (million euro)



Source: MNB

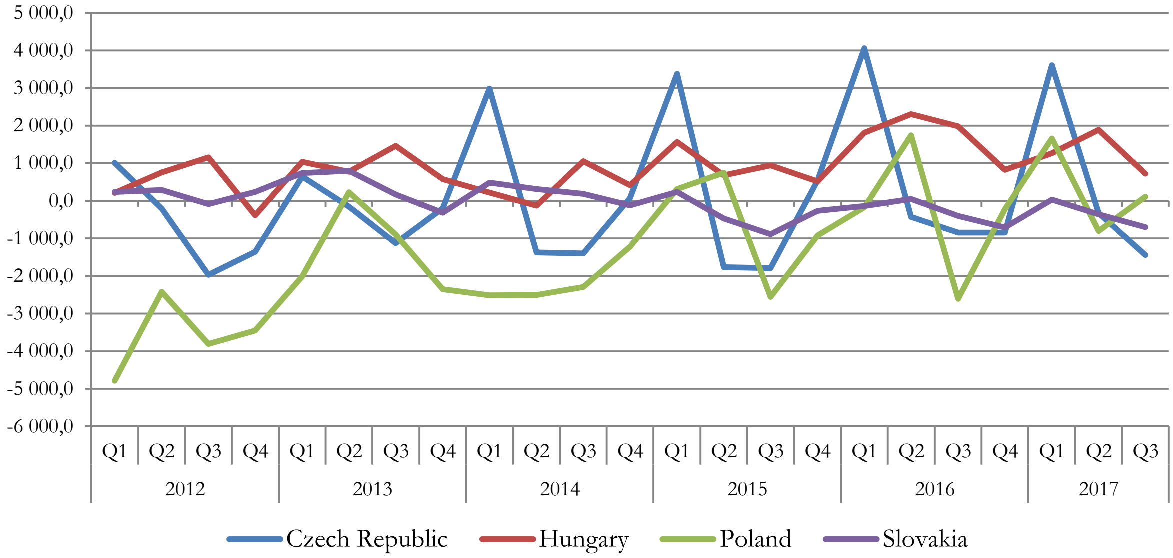
In comparison to the year before, in 2017 *transfers to and from the EU* have indisputably risen and the balance showed a surplus of EUR 902 million in the last quarter, the highest figure of the past year. The value of EU funds recorded as capital transfers has hit EUR 635 million.

Out of the various instruments of the financial account, one which deserves special attention is *foreign direct investment* (FDI), as net surplus in this category edged higher quarter-on-quarter. The value of investment by non-residents saw the first decrease in 2017 in the last quarter, some EUR 1bn. This decline was mainly due to a decrease in the transactions of debt instruments, while the value of investments in equities and reinvested earnings by non-residents rose as a whole by EUR 2.5bn in the observed period. Although data show strong fluctuations from quarter to quarter, the growth in non-residents' equity investment carries a positive message regarding perceptions of the Hungarian economy. Investment growth and the local re-investment of earnings signal the long-term commitment of non-residents and their trust in the success of Hungary's economy.

Of other components, the portfolio investment and other investment accounts show net outflow of EUR 696 million and EUR 286 million, respectively, while the net stock of liabilities concerning financial derivatives fell by EUR 440 million.

A comparison of Hungary's balance of payments account to those in other V4 member states using Eurostat data resulted in the chart below:

Fig. 5.: Current account balances of V4 countries (million euro, unadjusted data)

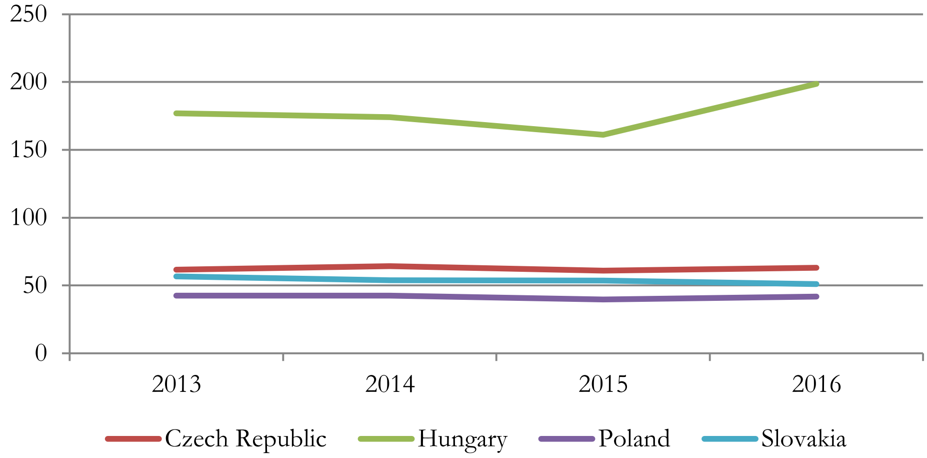


Source: Eurostat online database

The comparison of data requires caution, however: statistics become optimally comparable when they are analysed, for example, in relation to GDP. Nonetheless, raw data already show that within the V4 Hungary had the most stable, modestly positive balance of payments account in the past four years.

Available FDI data compiled by the Eurostat of the four years preceding 2017 show that Hungary's economy relied much more on foreign investment than other V4 countries did, and the extent of reliance increased during the course of 2016 (Fig.6) whereas investment growth in the case of other economies of the region practically stagnated.

Fig. 6: Inward FDI stocks, in % of GDP



Source: Eurostat online database

Altogether, the latest data on changes in the payments account confirm Hungary's success in maintaining financial stability. The balance of payments account has been positive in each quarter of the past three years. In addition, in light of the decisions of foreign investors one can conclude that Hungary continues to be seen as a promising investment destination where investors can operate in a stable environment and safely realize long-term plans.