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## *Hungarian economic data are encouraging*

### **Business and household confidence continues to be near a multi-year high**

Following an upward trend in place for one year and a half, the seasonally adjusted GKI-Erste economic sentiment index reached a fifteen-year high in April 2014. **Business expectations show improvement in June** after a slight deterioration in May, but the consumer confidence index continued to decline this month. On the other hand, business and consumer optimism is still close to a multi-year high. The minor fall is seen to be a post-election correction, which has been also observed over the past years.

The economic sentiment index is determined in line with the EU's methodology, and it takes into account – in addition to the business sphere -- expectations of households and the industrial, trade, construction and services sectors. The economic sentiment index is the weighted average of the consumer confidence index and the business confidence index.

The business confidence index is calculated from the responses of enterprises from the industrial, trade, construction and services sectors given to questions concerning the state of business and expectations of turnover and employment. These data are seasonally adjusted by using appropriate mathematical methods to filter out the discrepancies caused by seasonal effects (e.g., differences in weather conditions between winter and summer, increased demand before Christmas, lower output because of summer vacations).

In light of the results of the survey covering June 2014, within the business sphere the expectations of the industrial and trade sectors worsened, but **the expectations of construction and services sector enterprises were more upbeat. The business confidence index reached 5.4 points, up by 0.6 points compared to May.** This indicates that the number of optimistic companies continued to exceed that of pessimists.

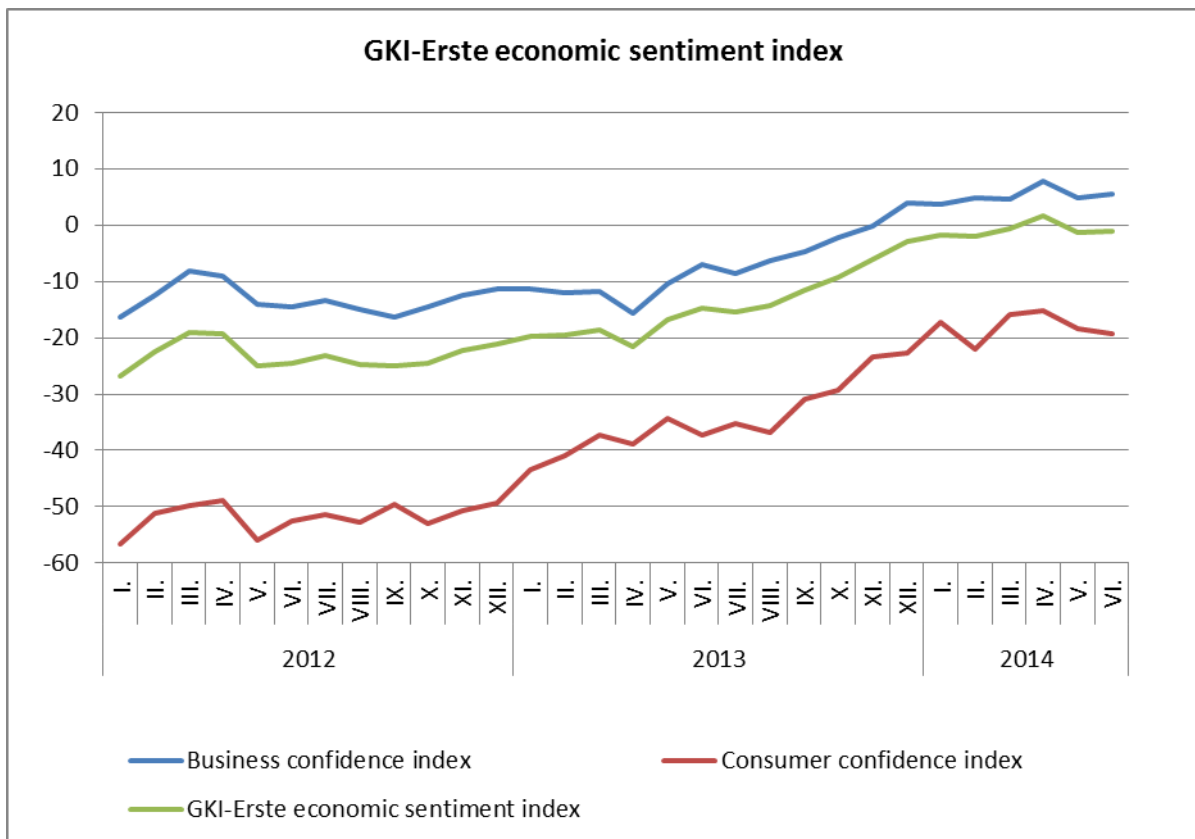
**The industrial confidence index fell to a level that can be said to be still high** (and last seen at the beginning of the year). Within this index, expectations regarding output in the prior and upcoming periods as well as the stock of orders deteriorated, but respondents perceived inventories to be rising. In the sixth month of the year, **the construction confidence index** returned to the level of April. Responses regarding output in the previous month and the stock of



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orders also showed improvement. As far as the trade sector is concerned, inventories were slightly lower and expectations concerning sales position and future orders also changed unfavourably. **The optimism of services sector enterprises, however, exceeded this year's former record:** turnover was expected to grow significantly and companies were also more upbeat about their sales positions.

**The intentions of employment improved in the construction sector and they were markedly stronger among services sector enterprises.** In the industrial sector, the intentions to hire were unchanged, while they were weaker in the trade sector. In addition to a large drop in the inflation expectations of consumers, **the assessment of industrial and services sector enterprises with regard to Hungary's economic outlook tuned more hopeful.**



Source: GKI

The consumer confidence index is calculated on the basis of households' responses to questions on expectations regarding their financial situation and the country's economic and employment outlook as well as their saving capacity.



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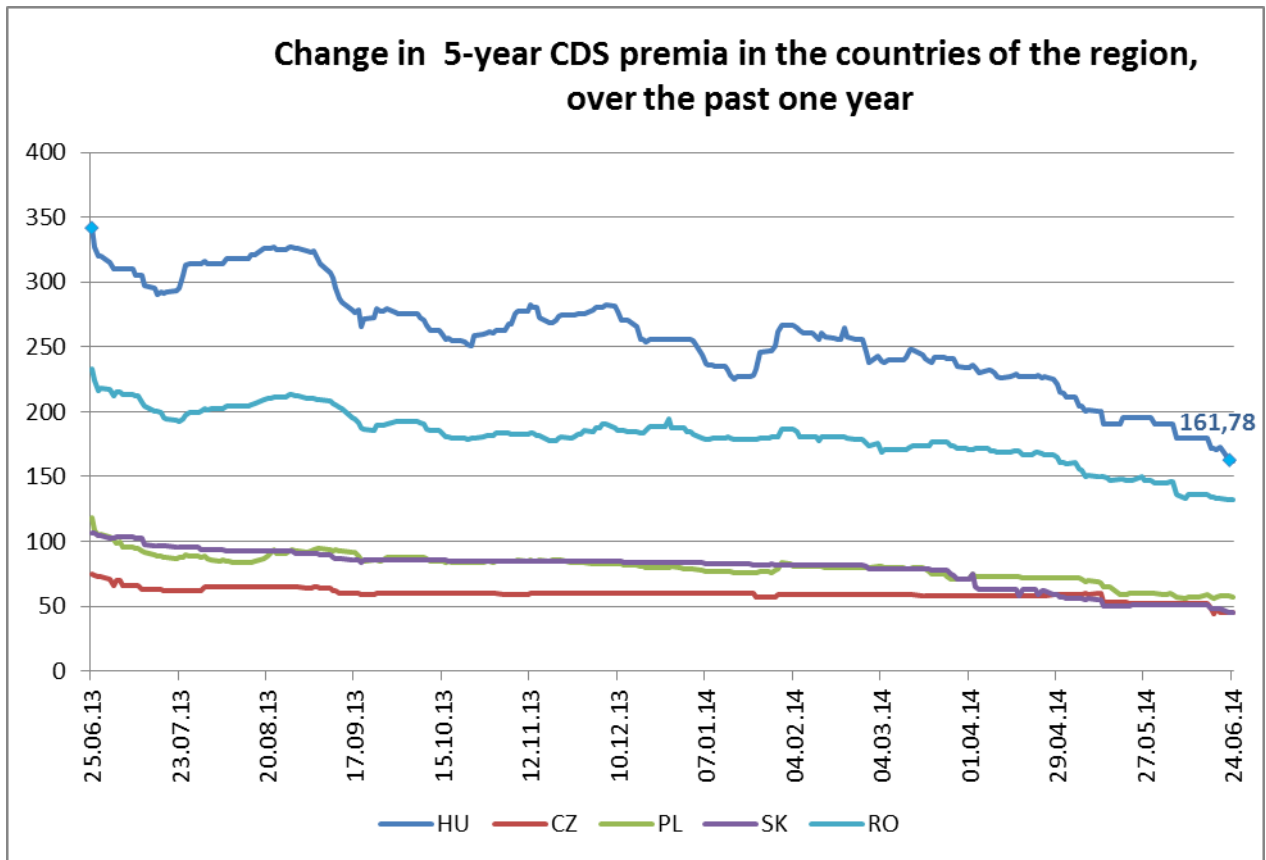
**Compared to the record high reached in April, the consumer confidence index was down in the fifth and sixth month of 2014, showing -19.3 points in June that signals a drop of 0.9 points in comparison to May.** Since May, the assessment of consumers regarding their financial position in the coming year has worsened, but **their view on saving capacity in the coming year was significantly better.** Households also consider it more likely to purchase some big-ticket durable goods over the next twelve months.

**Hungary's risk assessment improved spectacularly**

Over the past one year, Hungary's default risk has improved significantly. In June 2013, CDS spread, the premium payable for protection against the risk of the Hungarian state's default, was 342 basis points and **following a downward trend this fell to 162 basis points by the end of June 2014.** Risk premia have also decreased in the neighbouring countries, thus the drop in Hungarian CDS spread fits well into regional trends. **However, Hungary's CDS premium is some 53 percent lower compared to the level one year ago.** The respective decrease was similar in Poland (52 percent) and Slovakia (58.1 percent), while it was 40 percent in the Czech Republic and 43.1 percent in Romania.



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Source: Reuters