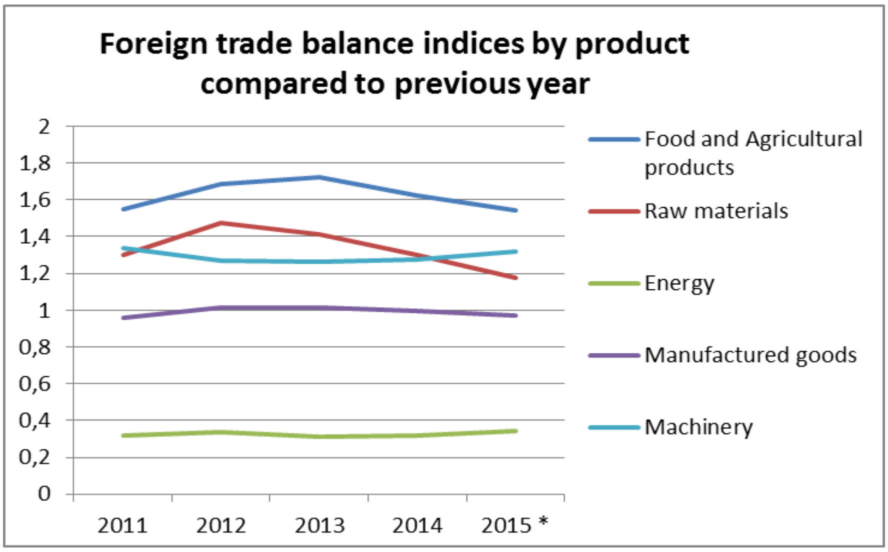
MINISTRY
FOR NATIONAL ECONOMY

Hungary's foreign trade posts massive surplus

Foreign trade surplus figures clearly reflect improving economic activity in Hungary. The volume of revenues from both exports and imports has been up in comparison to the corresponding period of 2014. Year-on-year, foreign trade accumulated a surplus of EUR 288 million in the first quarter of 2015. In the observed period, the volume of exports was up by 7.7 percent compared to the same period of the previous year.

According to the flash report of the Hungarian Central Statistical Office (KSH), in March 2015 the value of Hungarian exports totalled EUR 929 million, up by EUR 288 million in comparison to the corresponding period of 2014. The largest share of surplus has been the result of trade with EU member states: the volume of exports to and imports from EU member states constituted 79 percent and 77 percent of total, respectively.

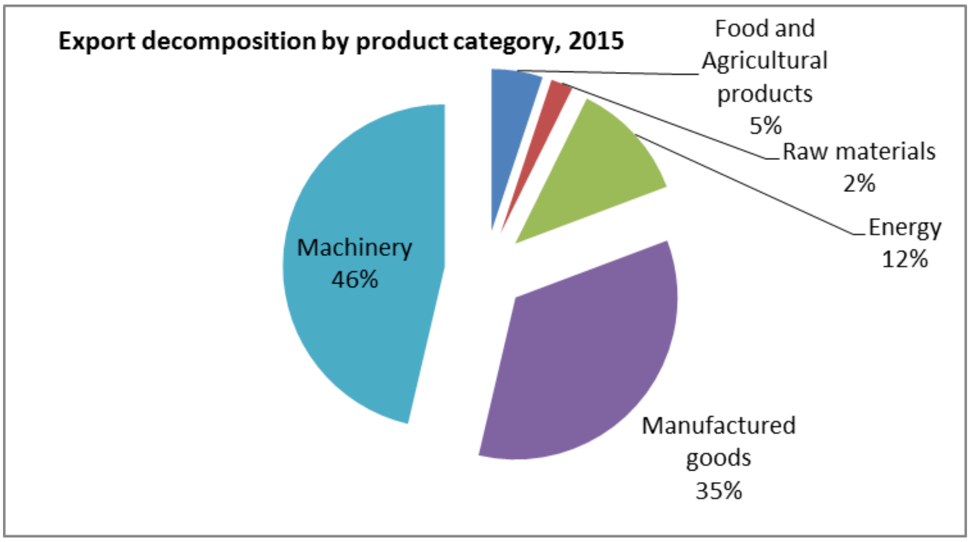
Since the 1st of January 2015, the value of exports has reached EUR 22.3bn, which constitutes an increase of EUR 530 million compared to the same period of the previous year. The forint's massive depreciation vis-á-vis the US dollar (22 percent year-on-year) has largely contributed to this growth; however, forint appreciation against the euro has slowed down the rise.



Source: Hungarian Central Statistical Office (KSH)

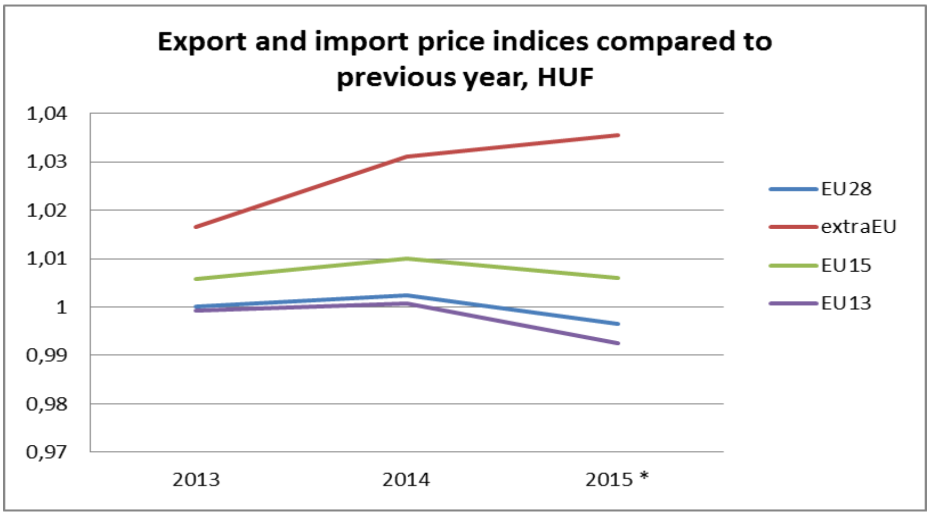
*Note: Data compiled for January-February 2015. Indices above 1 indicate trade surplus

Food industry and raw materials exports have been traditional factors contributing to foreign trade surplus. The trade surplus of this latter category has slightly declined. The other major sector behind export growth, machinery manufacturing, has become the second most profitable Hungarian export division, and in terms of export volume this sector continued to be the most important economic sector and a driver of economic expansion.



Source: Hungarian Central Statistical Office (KSH)

Over the past years, the export and import volumes of the second largest product category, that of manufactured goods, have stabilized, while the machinery manufacturing sub sector has repeatedly posted trade surpluses exceeding 20 percent.



Source: Hungarian Central Statistical Office (KSH)

*Note: average annualized data in light of quarterly trade balances. Indices above 1 signal foreign trade surplus. 2015 data cover the period January-February 2015.

Higher export volumes to non-EU destinations are thought to be the main reason for recent outstanding foreign trade surpluses. This process may have been driven by a higher USD/HUF exchange rate, as the bulk of Hungary's non-EU export sales are conducted in US dollars. On the other hand, the fact that Hungary's foreign trade balance continues to be in the green against the old member states of the EU signals that economic growth has remained sustainable. With regard to member states that joined the EU together with Hungary in 2004, data show roughly balanced trade.

As a whole, both the export volume increase vis-á-vis EU destinations and improved profitability on non-EU markets have significantly contributed to the impressive performance of the Hungarian economy. The macro-economic paths of the Hungarian economy are in the medium and long terms substantially influenced by changes in foreign trade balance. The analysis of trends in the past months may give good reason for decision-makers to be optimistic in this regard. The Hungarian Government has been placing even larger emphasis than before on supporting exporters' presence on non-EU markets, and thus the country's export portfolio has not only been diversified geographically, but it has also been turned more profitable. Export growth is expected to have a positive impact on GDP growth, and better economic expansion figures may help ease the tension within the Government's economic policy between efforts to cut taxes and stay prudent in fiscal affairs.

The World Bank acknowledges efforts by Hungary and the region

In its regular half-yearly report on EU member states that joined the bloc after 2004, the World Bank acknowledges the achievements of the Hungarian economy and assumes an upbeat stance on the medium-term outlook. The report underlines the fact that in 2013 Hungarian growth data improved the relatively sluggish average performance of the Visegrád Four. Demand growth – both external and domestic -- has been behind the moderately satisfying expansion data of "new" EU member states. Wages in real terms were usually higher in the countries of the region, driven by deflation and output growth. The analysts of the Washington-based institution find that the current, export- and low inflation-fuelled growth trends are sustainable.

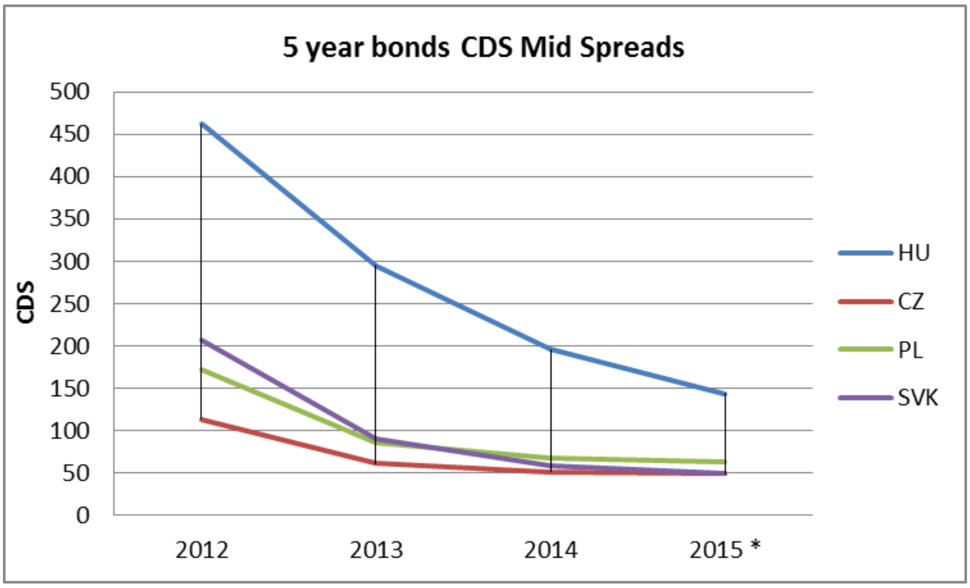
The World Bank prepares a report on recent and future economic conditions of member states that joined the union after 2004 (Baltic states, Visegrád Four, Slovenia, Croatia, Romania and Bulgaria). One of the major findings of the report is that the development of the region's countries is still very closely related to their major export markets. As Hungarian growth figures show correlation with those of the Czech Republic, the analysts of the World Bank have come to the conclusion that the rebounding German economy has also strengthened these two countries.

Although higher output has resulted in more jobs in 2014, one must be careful in drawing conclusions on effects. The majority of new jobs have been created by the services sector. However, the analysts of the World Bank point out that long-term unemployment has not diminished significantly in the region or in the Baltic states.

Unit labour costs have risen in the entire region, and within these the income component increased to the largest extent. In case of the Visegrád Four, the labour cost- labour productivity gap has not widened significantly, therefore wage increases appear to be sustainable. This process has also been underpinned by falling real exchange rates within the Visegrád countries, concerning which the interest rate cuts of central banks must have been a major factor. In the last two to three months, Czech crown and Hungarian forint had depreciated and it has made both countries more competitive within the Euro-zone.

As far as lending is concerned, the Hungarian market has been characterized by deleveraging of foreign banks, but this trend has not been translated into growth data. In the opinion of World Bank experts, the reason for this trend is that the domestic savings rate has increased in the region and thus foreign fund allocation could be reduced. In addition, the Funding for Growth Scheme of the National Bank of Hungary has managed to partly offset the effect of lacklustre lending activity.

In the issue of Hungary's state debt financing, analysts found that markets awarded Hungarian and Slovenian economic policies with lower CDS premia. The report underlines that these two countries have been running a current account surplus which, coupled with fiscal prudence, have also improved their image abroad. On the other hand, Hungary's debt-to-GDP ratio is still high within the region, but the latest trends show a silver lining as debt financing costs have been nearing those of other Visegrád countries.

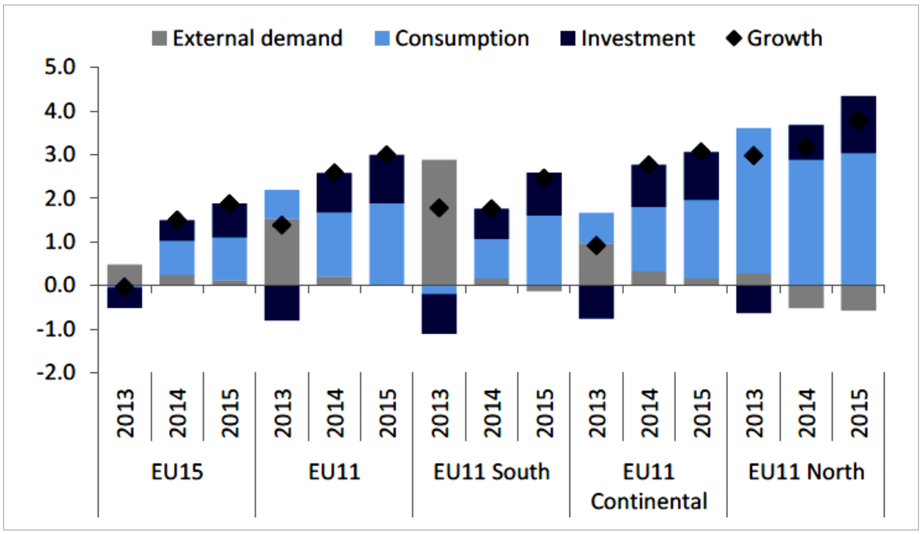


Source: Reuters (2015)

*Note: 2015 data cover period up to 12.05.2015.

In 2015, the World Bank expects economic growth among the Visegrád Four to exceed 3 percent, provided Euro-zone demand is maintained. With regard to consumption balance outlook in the EU11, the analysts were optimistic only about the V4, while they predicted increasing consumption for the entire group.

Growth contribution decomposition



Source: Eurostat, World Bank (2014)

*Note: Estimates for 2015. „EU11 Continental": Slovakia, Hungary, Poland, Czech Republic („V4 countries")

In the assessment of analysts, the positive export growth trend among the V4 is sustainable, and this phenomenon is thought to increase the number of jobs in the future. Subdued inflation will be a precondition for this to happen, and experts prognosticate that as the output gap is closing low but higher inflationary environment is here to stay. Hungary's general government budget deficit is seen below 3 percent of GDP.

Authors of the report, however, express caution as almost every member of the EU11 is exposed to global economic trends, therefore their growth is fragile. Experts identify foreign financial capital deleveraging as a general risk, which may create credit shortage in the region. Besides that, further negative international risks include the potential escalation of the Ukraine conflict and fiscal imbalances in China. In spite of these factors, the half-yearly World Bank report is upbeat on the region's development outlook, as this also determines the competitiveness of the entire EU.