MINISTRY
FOR NATIONAL ECONOMY

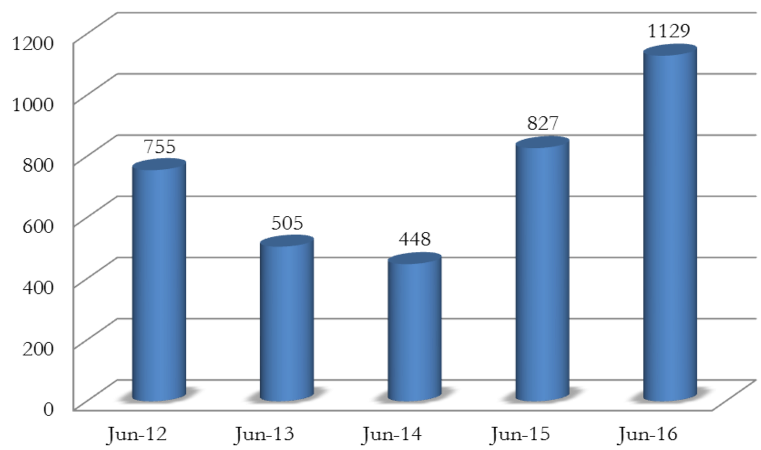
Hungary's foreign trade surplus hits historic high

According to the latest report of the Hungarian Central Statistical Office (KSH), in June 2016 Hungary's foreign trade surplus reached EUR 1129 million, the highest amount ever. Experts believe that this marked growth stemmed from the 5 percent year-on-year increase of the volume of exports as well as from the modest increase in imports. The massive trade surplus has also boosted the current account surplus and reduced the country's state debt, which factors are key determinants concerning Hungary's debt ratings.

The more than EUR 1.1bn surplus exceeds the second highest figure by 10 percent. In March 2015, the KSH reported a surplus of EUR 1.01bn, which had been the first figure above the 1 billion mark. In the first half of the year, the surplus accumulated by the retail sector was EUR 5.3bn, also the highest figure ever registered.

In June 2016, the volume of exports and imports, in EUR terms, rose by 5.0 percent and 1.3 percent, respectively, year-on-year. Thus, the value of exports and imports totalled EUR 8.5bn (HUF 2657bn) and EUR 7.3bn (HUF 2302bn), respectively. In the same period, the trade sector's surplus grew by EUR 302 million, to EUR 1129 million (HUF 355bn). 79 percent of Hungary's exports went to and 78 percent of imports originated from EU member states.

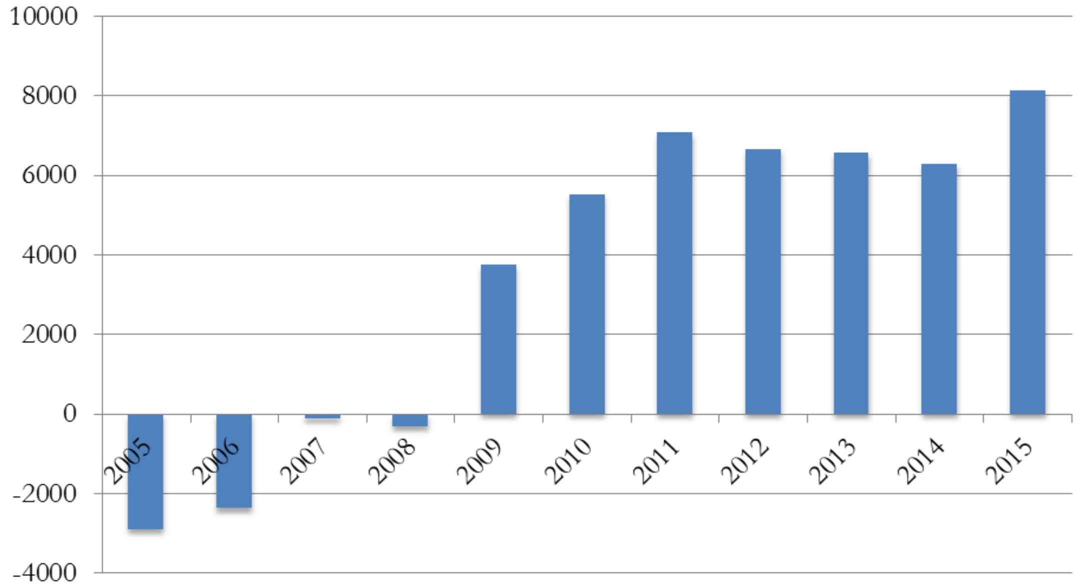
Balance of trade (at current prices), million EUR



Source: Hungarian Central Statistical Office (KSH)

In the first half of this year, the value of exports and imports, in Euro terms, was EUR 46.7bn (HUF 14 607bn) and EUR 41.4bn (HUF 12 947bn), respectively. Accordingly, the trade sector's surplus totalled EUR 5.3bn (HUF 1660bn). In comparison to the first half of 2015, the volume of exports and imports was up by 3.5 percent and 1.5 percent, respectively.

Balance of trade, by years (at current prices, million EUR)

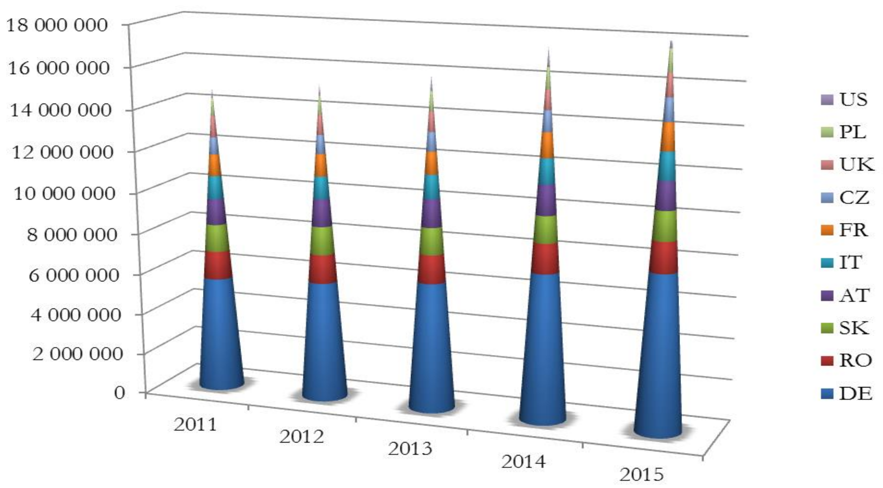


Source: Hungarian Central Statistical Office (KSH)

In the opinion of analysts, the significant trade surplus was the result of two major factors: the 5 percent year-on-year increase of exports and the minor growth of imports. In Q2 2016, exports soared, presumably due to a correction in car industry output, following weak performance at the beginning of the year.

The below graph shows Hungary's major trade partners between 2011 and 2015. Germany has clearly remained the country's number one export destination over the past years. In 2015, Hungarian exports to Germany totalled HUF 7650bn. The value of exports to other countries, listed in the graph, was similar (ranging between HUF 1000bn and HUF 1470bn), with Romania and Slovakia as second and third on the ranking of destinations.

Hungary's major export partners, 2011-2015 (at current prices, million HUF)



Source: Hungarian Central Statistical Office (KSH)

On the other hand, imports have shown a trend of stagnation in place for more than one year. This phenomenon is attributable largely – due to subdued crude oil prices on world markets – to falling fuel prices and lower energy consumption. Compared to the year 2015, when average crude oil prices exceeded USD 70, this year's prices remained mainly below the USD 50 threshold. In the future, consumption and export growth are expected to boost demand for imports, but falling investment volumes may keep this increase in check and lead to further stagnation.

Some experts predict, however, that in the second half of this year consumption and investment will pick up, resulting in further steady export growth and a gradual increase in import volumes. By the end of this year, foreign trade surplus is seen at an even higher level, especially in case oil prices remain subdued. In the medium term, several large-scale investment projects are expected to be realized, especially in the car industry and supplier sectors, which are likely to boost imports. The import of goods and services related to these projects may in the short term cut Hungary's foreign trade surplus. In the long term, these effects nonetheless are set to reverse and fuel export - and subsequent trade surplus - growth.