MINISTRY
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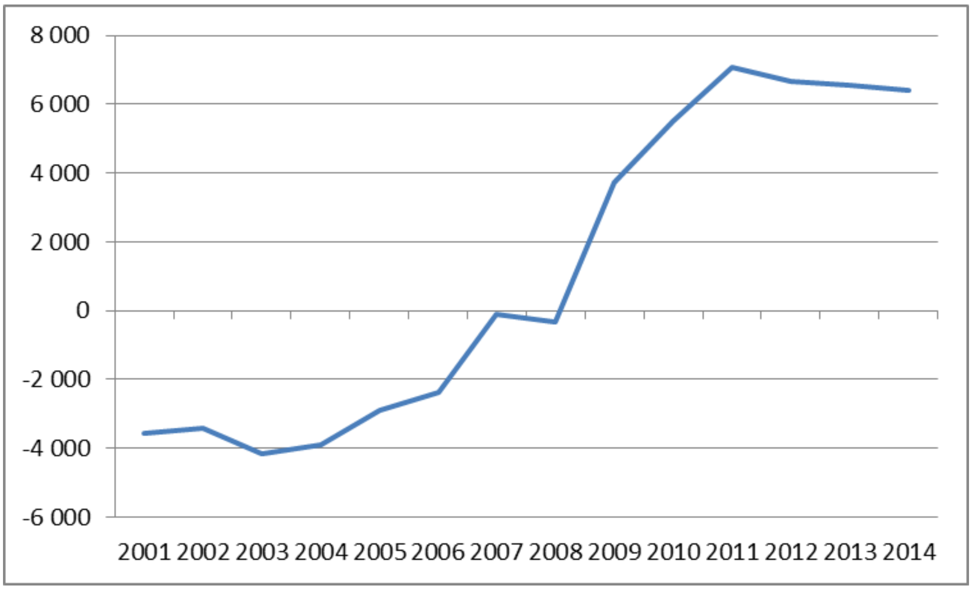
Investment grade status increasingly realistic for Hungary this year

In the press release of 22 May 2015, Fitch Ratings revised Hungary's credit rating outlook from stable to positive, therefore the rating agency is expected to promote the country from the current BB+ category to investment grade as early as this year. The Fitch press release highlights recent Hungarian economic achievements, such as massive foreign trade surpluses, the lower-than-expected general government budget deficit and outstanding GDP growth.

Fitch was upbeat on foreign trade balance data from the aspect of Hungarian economic growth. These statistics have also been confirmed by data of the National Bank of Hungary (NBH): while current account surplus constituted 0.8 percent of GDP in 2011, this ratio was as high as 4 percent in 2013. As the below chart shows, foreign trade balance turned positive in 2009, due largely to the fact that the import volume of every commodity group fell during the first year of the crisis compared to the previous year. In 2013, foreign trade posted a surplus of EUR 6 655 million, EUR 253 million above the level of 2014.

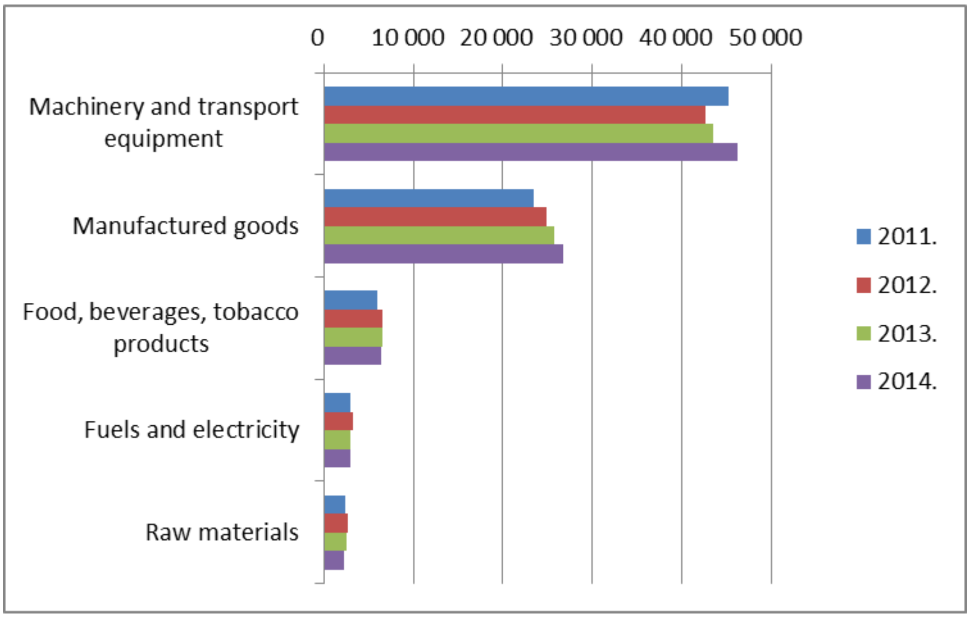
Foreign trade deficit/surplus 2001-2014 (million EUR)



Source: Hungarian Central Statistical Office (KSH)

Machinery and transport equipment constitute the bulk of Hungary's exports. Over the past four years, the volume of imports and exports of machinery and transport equipment has increased year after year: in 2014, this commodity group contributed to foreign trade surplus by some EUR 10bn, but due to the high import volume of fuels, electricity and manufactured goods foreign trade accumulated a surplus of EUR 6 402 million. Compared to 2008, Hungarian imports of fuels and electricity fell by EUR 3 339 million in 2009. This was a major factor behind the surge of foreign trade surplus to EUR 3 738 million in 2009. The imports of fuels and electricity have traditionally been a drag on foreign trade balance every year, while in 2014 the commodity group of manufactured goods also had a negative impact on the balance, as the volume of imports exceeded that of exports by EUR 140 million. Although the commodity group of food, beverages and tobacco products constitute only a small share of total exports, following the machinery and transport equipment group this category was the second largest contributor to foreign trade surplus.

Hungarian exports by main commodity groups 2011-2014 (million EUR)

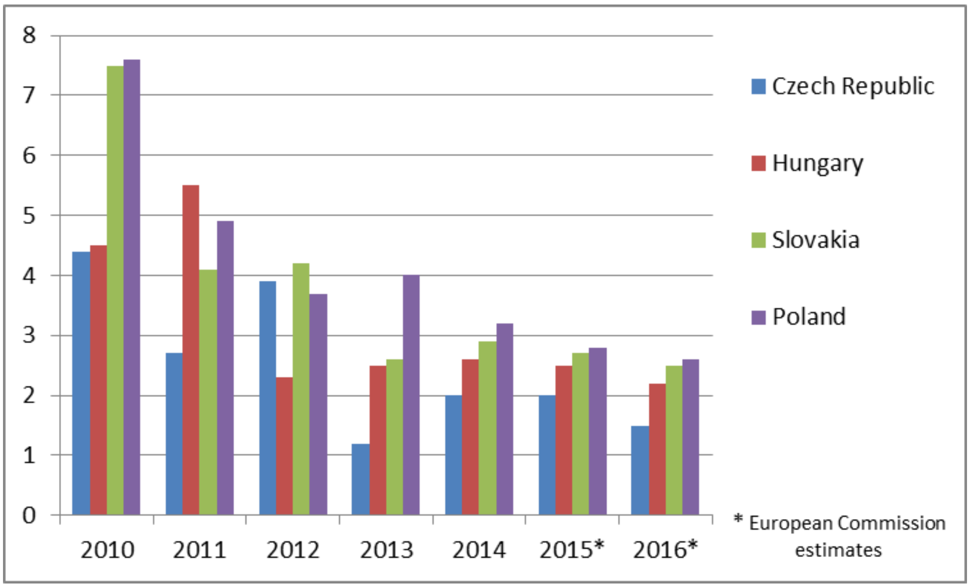


Source: Hungarian Central Statistical Office (KSH)

In 2014, the export volume of machinery and transport equipment totalled EUR 46 234 million, up by more than EUR 2 700 million year-on-year. The export volume of manufactured goods also shows significant growth from year to year, as in 2013 as well as 2014 the value of exports of this commodity group jumped by some EUR 1bn each.

Fitch also points out that general government budget deficit in 2014 was below prior estimates, and it could be kept below 3 percent even in an election year. The below chart shows general government budget deficits of the Visegrád Four, clearly demonstrating that the only country where the deficit level was lower than Hungary's in 2013 and 2014 is the Czech Republic, while in 2012 Hungary recorded the lowest figure.

General government deficit in V4 countries 2010-2016 (% of GDP)



Source: Eurostat, European Commission

Fitch prognosticates that this indicator in Hungary will be around 2-2.5 percent in the medium term. **The Spring Outlook of the European Commission (EC) expects this year's deficit to be 2.5 percent in Hungary, while for next year their estimate is even lower, 2.2 percent.** The EC forecasts declines also for the countries of the region. The deficit in the Czech Republic is expected to be near the 2013 level in 2016. The 2016 deficit figure projected in case of Hungary will be the second lowest among the Visegrád Four. In the next two years, the European Commission puts general government budget deficits in the 2.5-2.8 percent range in Slovakia and Poland.

Fitch emphasises that the Hungarian economy expanded at a faster-than-anticipated rate of 3.6 percent last year. Increasingly favourable lending conditions are among the factors that help maintain the pace of growth. The Monetary Council of the National Bank of Hungary– in line with prior market expectations – cut the base rate on 26 May. **Thus, the central bank base rate fell to 1.65 percent, which further assists banks to optimize lending conditions for both corporate and private clients.** The NBH stressed that the decision had been prompted by the Hungarian economy's growth potential, low inflationary environment and high domestic demand. Given the fact that the consumer confidence indicator of economic thin-tank GKI reached a new record high in March 2015 is another reason for optimism with regard to domestic consumption growth.

Hungary's five-year CDS premia has recently plummeted to new lows. While at the beginning of 2012 this indicator had been above 700 points, by May 2014 it had stabilized below 200 points. In light of the latest data, on 27 May 2015 the five-year CDS premium payable in case of Hungary was 140 basis points.

Hungary's 5-year CDS premia as of 1 January 2012

Source: Reuters

Improving Hungarian risk indicators, external financing capacity and growth potential are all expected to have a positive impact on the impending revision of the country's

credit rating. This year, major credit rating agencies will have the option to restore Hungary's investment-grade status on four occasions: revisions are scheduled to take place in July and November at Moody's, in September at Standard&Poor's and in November at Fitch.