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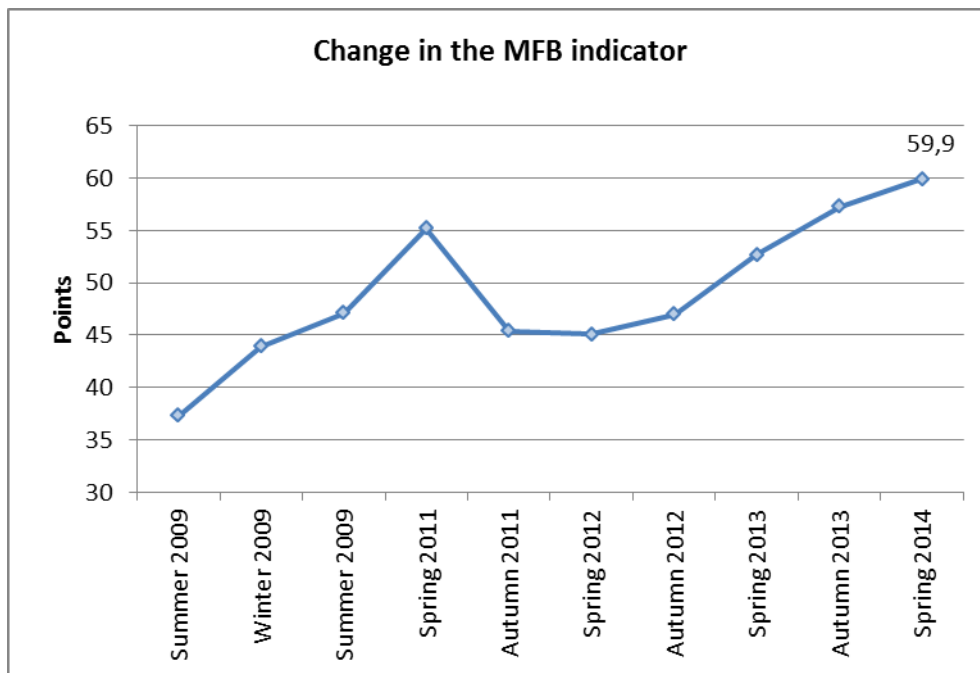
Encouraging signs of a lasting recovery

In the second half of 2013, some encouraging signs have emerged within the Hungarian economy that have been confirmed by recently published preliminary and detailed GDP data for the first quarter of 2014. **Hungary's GDP increased by 3.5 percent in Q1 2014 compared to the corresponding period of the previous year.** In international comparison, Hungary's 1.1 percent quarter-on-quarter growth was – along with Poland's – the highest within the European Union. **The main forward-looking indicators are also signalling that the expectations of domestic market participants are positive:** the economic sentiment index of the Hungarian Development Bank (MFB) has reached a new record with several sub-indices jumping to all-time highs, while the Purchasing Manager Index of the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM) continues to indicate the firm future expansion of the sector.

The economic sentiment index of the Hungarian Development Bank, which is based on the responses of enterprises, provides a comprehensive overview of the current status and the future expectations of domestic companies, the key domestic and foreign market trends they are being influenced by and the funding requirements and options of enterprises. The results of the survey conducted in spring 2014 show that Hungarian enterprises are highly optimistic: **over the past six months, the MFB indicator rose by 2.6 points to 59.9 points, a new record high in the history of the index. This, as a whole, signals marked improvement concerning the perceptions of market participants on current and future business conditions.**



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Source: Hungarian Development Bank (MFB)

The MFB indicator consists of four indices (Macroeconomic, Market, Financing and Investment indicators) and two sub-indices (Domestic and Foreign market). **The Macroeconomic index increased by 2.1 points since the previous survey to 51.0 points; this was for the first time that the MFB index exceeded 50 points.** This result has been mainly the consequence of a more upbeat view regarding the economic processes over the past one year and more optimistic future expectations. **Enterprises participating in the survey are anticipating, on average, GDP growth of 1.7 percent and inflation of 2.4 percent, whereas in light of GDP data for the first quarter and the trend of macroeconomic indices, it is reasonable to assume that GDP growth will reach 3 percent in the first half of 2014.**

The Market index reached 59.0 points after gaining 4.8 points, thanks to the improved profitability and business outlook of enterprises. Expectations with regard to domestic and foreign sales have also hit a record high, and due to the rebound of foreign demand the export expectations of companies have also surpassed the former best figure registered in spring 2011. The majority of enterprises are predicting rising sales on every market abroad, especially in regions outside Europe.

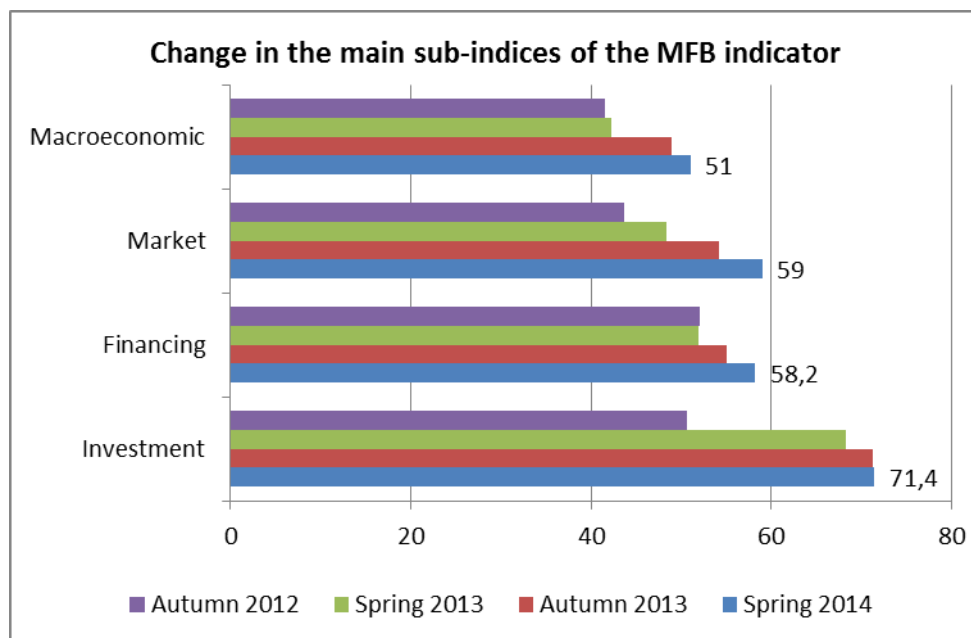


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The Financing index increased by 3.1 points to 58.2 points, the best figure in three years.

The improvement of this component was underpinned, among other factors, by the enhanced propensity to borrow, the slowly but steadily improving financial situation of companies and favourable changes in borrowing conditions. Over the past year, the largest improvements concerning the above factor was observed with regard to payable interest rate (and the interest rate differential between forint and foreign currency loans), loan supply, other funding costs and the duration of loan contracts.

Although the increase of the Investment index was the smallest, 0.2 points, this indicator has the highest score with 71.4 points among the MFB sub-indices. In addition to further improvement in capacity utilization, the willingness to invest has also continued to strengthen: the share of enterprises which are certain to invest over the coming year has increased to 63.2 percent, while another 13.8 percent consider it likely. **The key motivation of companies lies in continuing formerly suspended or postponed projects, but favourable market processes are increasingly behind the development plans of enterprises.**



Source: Hungarian Development Bank (MFB)

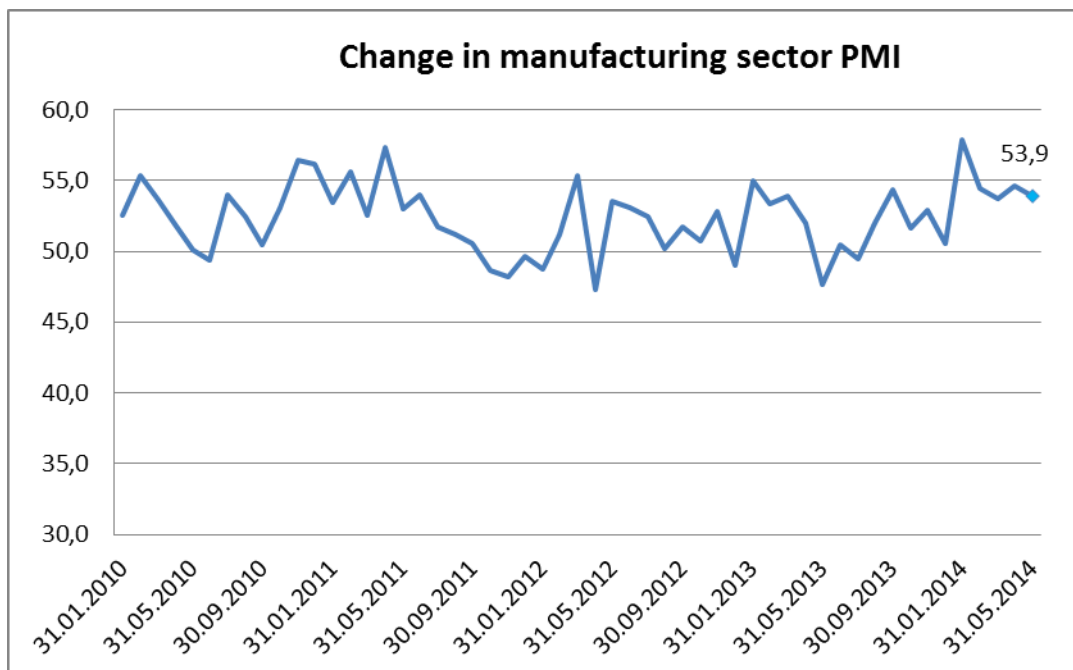
The Purchasing Managers Index of the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM) evaluates the performance and future outlook of the



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manufacturing sector, one of the main growth engines of the Hungarian economy, based on the responses of purchasing managers active in the sector. **In Q1 2014, the manufacturing sector expanded by 9.6 percent year-on-year and added 1.9 percentage points to the 3.5 percent GDP growth recorded in the first quarter.** According to the HALPIM survey published at the beginning May, the seasonally adjusted PMI was up to 53.9 points in May 2014. This May figure exceeds the long-term average of readings in May (51.9 points) as well as the average of the past three years (51.3 points). In the second quarter of 2013, the index failed to show any well-defined trend, since August last year, however, **it has been indicating steady manufacturing sector growth. The indicator registered in May was the best in seven years.**

Among the sub-indices, the Production quantity index was also better compared to April, pointing to higher output for the seventh consecutive month. Although the New order index was slightly down, the current figure is still the third best recorded in the month of May since 1995. The Supplier deliveries index edged higher in May, signalling a slight slow-down in growth. The Employment index dropped for the first time this year, showing marginal deterioration. Following a slump in the prior month, Inventories purchased were up again in May.



Source: Reuters



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First quarter data are also confirming that the Hungarian economy has been placed on a sound and sustainable growth path. In light of better-than-expected first quarter data, Hungarian economic growth in 2014 may exceed by 0.3-0.6 percentage points the 2.3 percent GDP growth figure prognosticated by the Convergence Programme. These optimistic expectations are based – in addition to the aforementioned facts -- on the stock of orders data within the industrial and the construction sector, the steady high indices concerning consumer and business confidence as well as the upturn in investment activity.