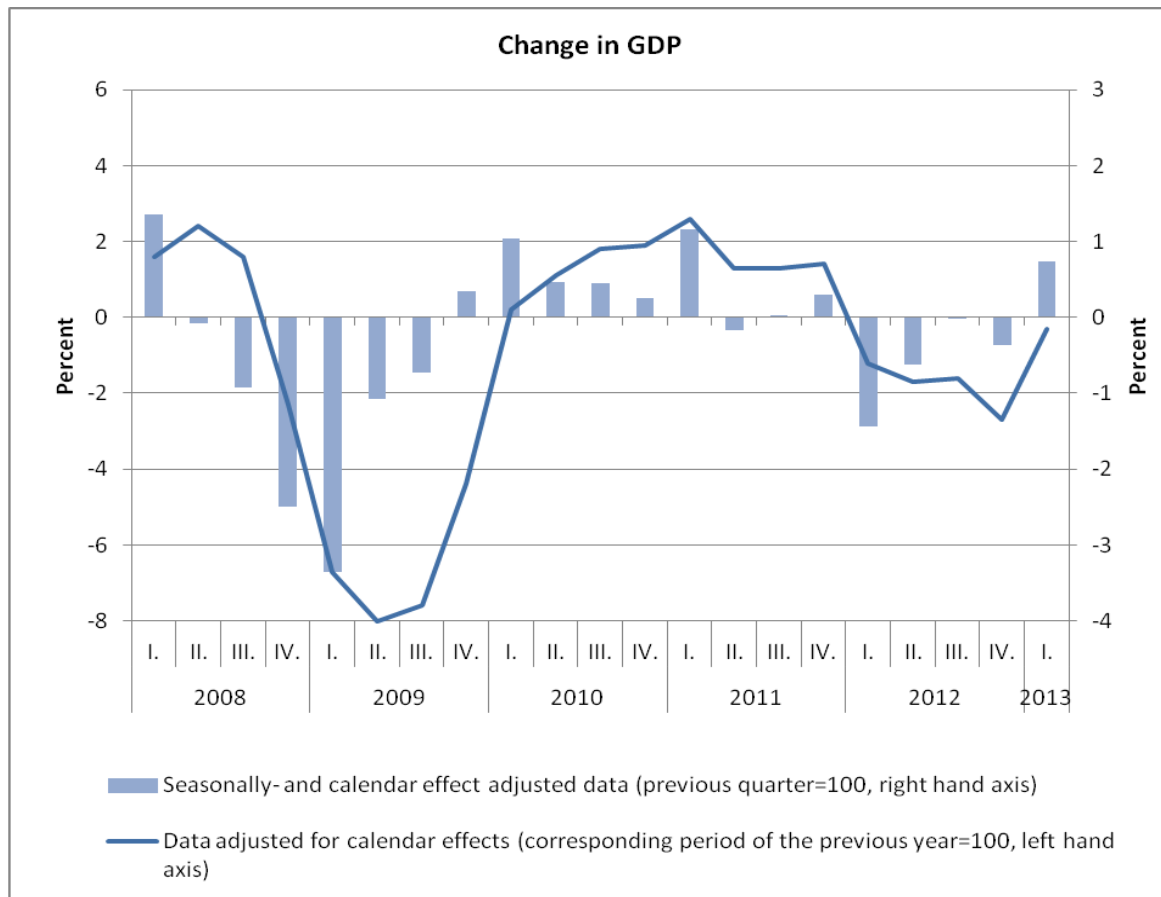




Technical recession over as growth hits 0.7 percent in Q1 2013

In the first quarter of 2013, Hungary's economy expanded by 0.7 percent compared to the previous quarter, which means that recession, in a technical sense, has come to an end in Hungary. According to unadjusted data GDP fell by 0.9 percent year-on-year, while seasonally- and calendar-effect adjusted data signal that the economy shrank by 0.3 percent compared to the first quarter of 2012. Thanks to the stability measures introduced so far, the Hungarian economy has entered an upward economic path, and the latest data corroborate the Government's 0.7 percent growth estimate for 2013 as laid down in the Convergence Programme.



Source: Hungarian Central Statistical Office (KSH)

Although the Hungarian Central Statistical Office (KSH) will publish final data on Hungary's GDP only on 6 June, some information is already available with regard to the quarterly GDP growth figure. In comparison to the corresponding period of the previous year, agricultural and construction sector output has increased. **The volume of output in the latter sector was**



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9.9 percent higher in March 2013, compared to the level of March 2012. Seasonally adjusted data indicate that construction sector output was up by 2.1 percent compared to that of February, and **in the initial three months of the year construction sector performance increased by 4.8 percent in comparison to the level of one year ago. In the first quarter, the industrial sector was also a good performer;** the seasonally- and workday-adjusted industrial production index was up by 2.9 percent in January compared to December 2012, and further month-on-month expansion was registered in February and March as well, which was mainly the result of the positive performance of the motor vehicle manufacturing sector. **In the initial three months of the year, a positive trend was also observable in the retail sector which signals a pickup of household consumption.**

Although analysts had prognosticated the economy to contract by 1.3-1.5 percent in the first quarter on a year-on-year basis, this figure turned out to be merely 0.9 percent. Estimates for Hungary's GDP growth compared to the previous quarter ranged between 0.2 percent and 0.4 percent. After the GDP figure had been published, JP Morgan revised upward its GDP forecast for the year of 2013, from 0.4 percent to 0.5 percent.

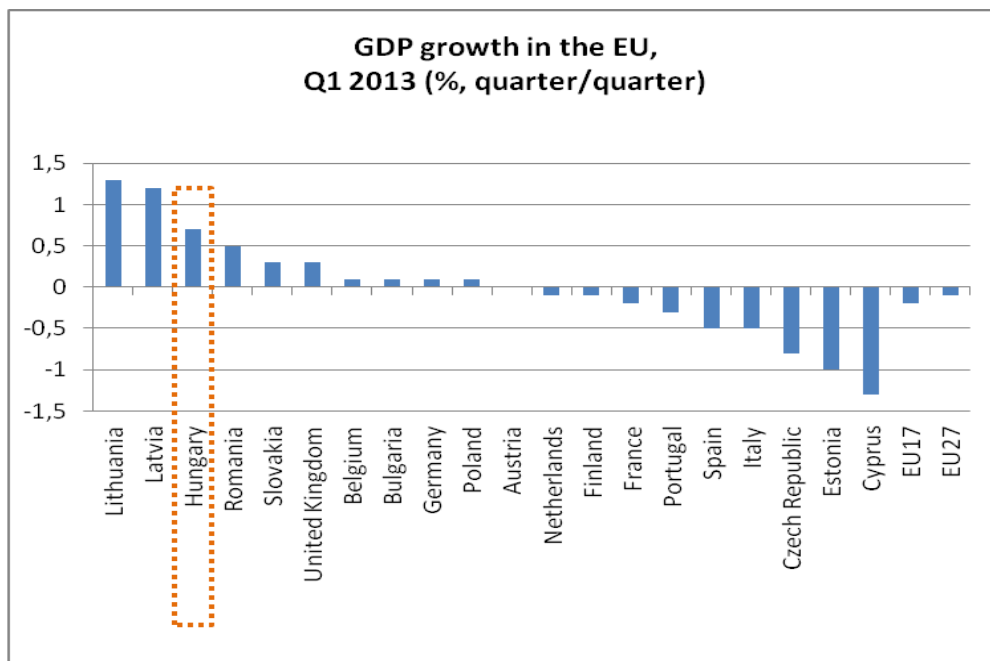
The European Commission has also upped its prognosis for 2013 and 2014. While in its forecast in February 2013 the Commission predicted economic growth to be -0.1 percent and 1.3 percent for 2013 and 2014, respectively, **in the Spring Forecast the estimates were already 0.2 percent for 2013 and 1.4 percent for 2014.** The mild growth in 2013 may be underpinned by export market recovery and the revival of domestic demand resulting from higher real disposable income, while the high unemployment rate and ongoing deleveraging may dampen household spending.

According to the Commission, in 2014 economic growth may be mainly fuelled by stronger net exports and domestic demand. Looser lending conditions and further increasing the real disposable income will bolster household consumption. **Thanks to the Funding for Growth scheme launched by the National Bank of Hungary (MNB), which provides loans chiefly to SMEs under favourable conditions, private sector investment growth is expected to be turning positive.** The stimulus measures for improving lending dented by the economic crisis and the pickup of corporate loan demand are anticipated to exert a positive effect on the Hungarian economy.



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From a European perspective, Hungarian GDP growth was highly favourable in the first quarter of this year: on the basis of currently available data on twenty countries, Hungary's quarter-on-quarter growth of 0.7 percent – after Lithuania's and Latvia's – was the third highest in the European Union. As far as year-on-year growth is concerned, Hungary held the EU's middle ground.



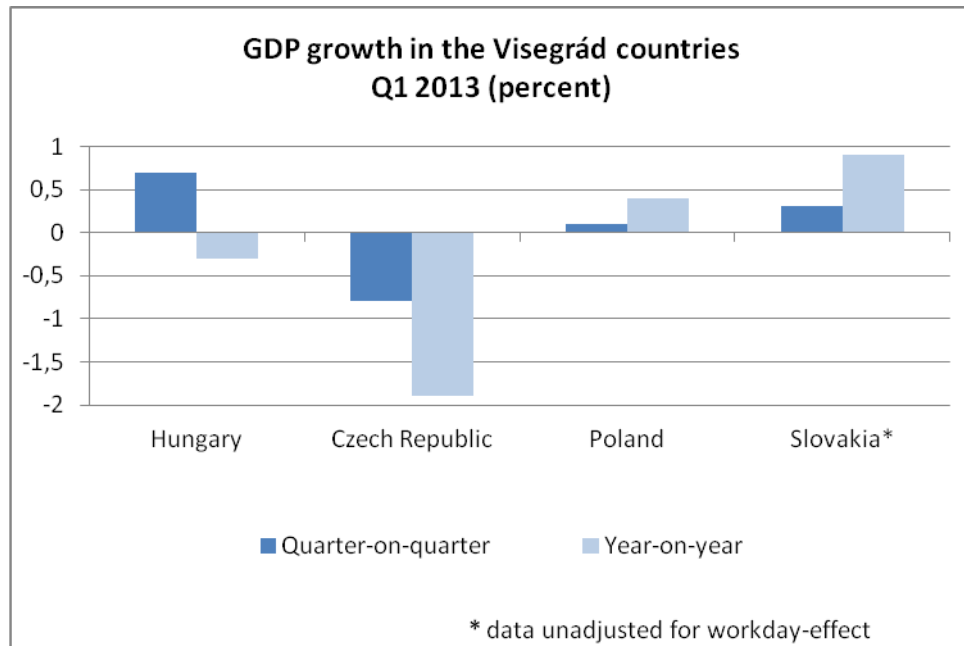
Source: Eurostat

According to Eurostat data, GDP in the Euro-zone declined by 0.2 percent quarter-on-quarter, whereas it was down by 1.0 percent in Q1 2013, year-on-year. With regard to the entire EU 27, output decreased by 0.1 percent and 0.7 percent, respectively, compared to the previous quarter and the first quarter of the previous year.

In comparison to the last quarter of 2012, currently available data signal that out of twenty EU countries, economies contracted in nine member states, stagnated in one of them and increased in 10 of them, including Hungary, in Q1 2013. Especially countries in the South suffered severe GDP slump: contraction totalled 0.5 percent in Spain and Italy, 0.3 percent in Portugal and 1.3 percent concerning Cyprus. **Germany's economy, which is of special importance for**



Hungary, grew by 0.1 percent in the first quarter compared to the October-December period of 2012, which is also a positive sign regarding Hungarian economic growth prospects.



Source: Eurostat

The Hungarian economy performed well in the first quarter of this year also from a regional perspective. With the 0.7 percent quarterly growth, Hungary achieved the most favourable growth figure among the Visegrád countries. In the January-March period of 2013, the Czech Republic sank into deep recession: the country's economy contracted by 0.8 percent quarter-on-quarter, while Poland's and Slovakia's GDP was up by 0.1 percent and 0.3 percent, respectively. Compared to the same period of the previous year, Poland's and Slovakia's economies performed better than Hungary's, but the 1.9 percent negative growth of the Czech Republic was well below the Hungarian achievement.